

Under existing statutes and court decisions and assuming compliance with the tax covenants described herein, in the opinion of Hawkins, Delafield & Wood, Bond Counsel, interest on the Subordinate Series 1997-B Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Subordinate Series 1997-B Bonds will be treated as a tax preference item in calculating the alternative minimum tax imposed on individuals and corporations pursuant to the Code. Interest on the Senior Series 1997-A Bonds is included in gross income for federal income tax purposes pursuant to the Code. Under existing statutes, the Series 1997 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth. See "TAX MATTERS" herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the 1997 Bonds for certain bondholders.

NEW ISSUE — BOOK ENTRY ONLY

\$135,000,000
Kentucky Higher Education Student Loan Corporation

\$45,250,000 Student Loan Revenue Bonds, Senior Series 1997-A-1
\$45,200,000 Student Loan Revenue Bonds, Senior Series 1997-A-2
(Taxable Auction Rate Certificates)

\$44,550,000 Student Loan Revenue Bonds, Subordinate Series 1997-B
(Auction Rate Certificates)

Dated: Senior Series 1997-A: Date of Delivery
Subordinate Series 1997-B: Date of Delivery

Due: Senior Series 1997-A: May 1, 2027
Subordinate Series 1997-B: May 1, 2027

The 1997 Bonds (as defined herein) are issuable in fully registered form and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the 1997 Bonds. Purchasers of the 1997 Bonds will not receive certificates representing their beneficial ownership interests in the 1997 Bonds. Purchases and sales by the beneficial owners of the Senior Series 1997-A Bonds shall be made in book entry form in the principal amount of \$50,000 or any integral multiple thereof. Purchases and sales of the Subordinate Series 1997-B Bonds shall be made in book entry form in the principal amount of \$50,000 or any integral multiple thereof. See "BOOK ENTRY SYSTEM" herein.

Payments of principal, redemption price, and interest with respect to the 1997 Bonds are to be made directly to DTC by Bank One, Kentucky, NA (the "Trustee" and "Paying Agent") or its successor Trustee, so long as DTC or Cede & Co. is the registered owner of the 1997 Bonds. Disbursements of such payments to DTC Participants (as defined herein) are the responsibility of DTC and the disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of DTC Participants as more fully described herein.

The Senior Series 1997-A Bonds, consisting of the Senior Series 1997-A-1 Subseries and the Senior Series 1997-A-2 Subseries, and the Subordinate Series 1997-B Bonds are being issued by the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the provisions of a General Bond Resolution (the "General Resolution") adopted by the Corporation on May 9, 1997, and, respectively, to a Senior Series 1997-A Resolution and a Subordinate Series 1997-B Resolution (each a "Series Resolution") each adopted by the Corporation on May 9, 1997, to provide funds for the origination or purchase of Student Loans.

The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are being issued as Auction Rate Certificates - ARCsSM ("ARCs"). Interest on the Senior Series 1997-A Bonds, prior to a change in the Interest Payment Date as described herein, shall be payable on the Business Day following the end of each Interest Period as described herein. Interest on the Subordinate Series 1997-B Bonds, prior to any change in the Interest Payment Date as described herein, is payable on November 1, 1997 and semiannually on each May 1 and November 1 thereafter until maturity or earlier redemption. The Senior Series 1997-A Bonds are superior in right of payment under the General Resolution to the Subordinate Series 1997-B Bonds and to all other Senior Subordinate Obligations and Subordinate Obligations which may be issued in the future. The 1997 Bonds are subject to redemption prior to maturity as described herein.

THE 1997 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE FROM SPECIFIC REVENUES, FUNDS, AND PROPERTIES PLEDGED THEREFOR AS HEREIN DESCRIBED. THE 1997 BONDS DO NOT CONSTITUTE A DEBT OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 1997 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. KENTUCKY'S NAME IS ON THE 1997 BONDS FOR THE BENEFIT AND CONVENIENCE OF OTHER ENTITIES IN THE COMMONWEALTH. HOWEVER, THE ONLY SECURITY WHICH IS PLEDGED FOR THE 1997 BONDS IS THE INDEPENDENT REVENUES AND ASSETS FROM THE PROJECT. THE GENERAL ASSEMBLY DOES NOT INTEND TO APPROPRIATE ANY COMMONWEALTH FUNDS TO FULFILL THE FINANCED OBLIGATION REPRESENTED BY THE 1997 BONDS. THE CORPORATION HAS NO TAXING POWER.

The 1997 Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters in connection with the 1997 Bonds will be passed upon for the Underwriter by its counsel, Krieg DeVault Alexander & Capehart, Indianapolis, Indiana. The 1997 Bonds are expected to be available for delivery in New York, New York on or about May 15, 1997.

PaineWebber Incorporated

Dated: May 9, 1997

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No dealer, broker, salesman or other person has been authorized by the Corporation, the Kentucky Higher Education Assistance Authority ("KHEAA") or the Underwriter to give any information or to make any representations with respect to the 1997 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 1997 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Corporation, KHEAA, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter or, other than as to representations about itself, the Corporation or the KHEAA, respectively. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or KHEAA or that the information or opinions or estimates are correct as of any date subsequent to the date hereof.

Except for any information provided by the Trustee concerning the Trustee, the Trustee has no responsibility for any information in this Official Statement. Further, the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the 1997 Bonds, except to the extent that the Trustee has agreed to forward continuing disclosure materials received from and prepared by the Corporation to the appropriate Repository.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1997 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

\$45,250,000 Student Loan Revenue Bonds, Senior Series 1997-A-1

\$45,200,000 Student Loan Revenue Bonds, Senior Series 1997-A-2

\$44,550,000 Student Loan Revenue Bonds, Subordinate Series 1997-B

INTRODUCTION

This Official Statement sets forth certain information concerning the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), and its issue of Student Loan Revenue Bonds, Senior Series 1997-A, consisting of the \$45,250,000 aggregate principal amount of Senior Series 1997-A-1 Subseries (the "Senior Series 1997-A-1 Bonds"), and \$45,200,000 aggregate principal amount of Senior Series 1997-A-2 Subseries (the "Senior Series 1997-A-2 Bonds", and collectively with the Senior Series 1997-A-1 Bonds, the "Senior Series 1997-A Bonds"), and \$44,550,000 aggregate principal amount of its Student Loan Revenue Bonds, Subordinate Series 1997-B (the "Subordinate Series 1997-B Bonds"). The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are referred to collectively herein as the "1997 Bonds". The 1997 Bonds are being issued pursuant to the provisions of Sections 164A.010 to 164A.230, Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May 9, 1997 (as amended and supplemented from time to time, the "General Bond Resolution") and, respectively, a Senior Series 1997-A Bond Resolution and a Subordinate Series 1997-B Bond Resolution each adopted by the Corporation on May 9, 1997 (each a "Series Resolution" and, collectively with, the General Bond Resolution, the "Resolutions"). Capitalized terms used herein shall have the meanings given them in Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS".

The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are being issued to provide funds to finance or refinance the purchase or origination of Student Loans by the Corporation. The 1997 Bonds constitute the initial financing by the Corporation pursuant to the General Bond Resolution. The Corporation has heretofore issued several series of its Insured Student Loan Revenue Bonds, of which \$327,230,000 remained outstanding as of December 31, 1996 (the "Insured Student Loan Revenue Bonds"). Contemporaneously herewith, the Corporation is issuing an aggregate principal amount of \$4,910,000 of Insured Student Loan Revenue Bonds to refund certain outstanding Insured Student Loan Revenue Bonds which mature on June 1, 1997 and December 1, 1997. The Insured Student Loan Revenue Bonds are issued pursuant to a general bond resolution adopted by the Corporation on June 10, 1983, as amended and supplemented from time to time (the "1983 Resolution"), are secured as provided by the 1983 Resolution and are not secured by the General Bond Resolution, or by any interest in the Trust Estate pledged under the General Bond Resolution to the payment of the 1997 Bonds. The Corporation also has available a line of credit for the purpose of purchasing or originating Student Loans. The Corporation may apply a portion of the proceeds of the 1997 Bonds to repay all or a portion of the advances outstanding pursuant to this line of credit. The General Bond Resolution permits the issuance of additional bonds (the "Additional Bonds") or other Obligations through the adoption of additional Series Resolutions. The priority of claim as to payment of such Additional Bonds or other Obligations under the Resolutions may be equal to or inferior to the Senior Series 1997-A Bonds or superior to or equal to the Subordinate Series 1997-B Bonds. The General Bond Resolution also permits the Corporation to enter into Obligation Facilities or Swap Facilities the payment of which by the Corporation shall have the same priority of claim as to payment under the General Bond Resolution as does the Series of Bonds or other Obligations to which the Facilities relate.

Subject to the provisions of the General Bond Resolution, a Trust Estate including the following assets is pledged to the payment of the principal of, redemption price, if any, and interest on the 1997 Bonds, any Additional Bonds and any other Obligations: (i) all moneys, including Bond proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest

in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) all other Revenues; and (v) all direct or indirect proceeds of any of the assets described in (i) through (iv) above.

The 1997 Bonds are subject to redemption as more fully described herein under the caption "DESCRIPTION OF THE 1997 BONDS -- Redemption". The Trustee is the initial Paying Agent and Registrar for the 1997 Bonds.

Descriptions of the Corporation, the Guaranty Agencies, the 1997 Bonds, the Corporation's education finance and servicing activities, the Resolutions and related documents are included in this Official Statement. The descriptions of such documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, which documents are on file with the Trustee.

USE OF PROCEEDS

The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are being issued to provide funding for the acquisition, origination or refinancing by the Corporation of Student Loans in accordance with the Resolutions and the Act. The Corporation currently expects to apply all 1997 Bond proceeds initially available to finance Student Loans by May 1, 1999, to the acquisition, origination or refinancing of Student Loans which are originated pursuant to the Federal Family Education Loan Program ("FFELP Loans") and are guaranteed by KHEAA. Such Student Loans may include Student Loans which currently secure other Corporation obligations. See "THE CORPORATION -- The Corporation's Education Finance and Servicing Activities - *FFELP Loan Financing*". The Corporation reserves the right to apply amounts held under the Resolutions to finance FFELP Loans which are guaranteed by Guaranty Agencies other than KHEAA and to finance Student Loans which are not FFELP Loans, subject to the provisions of the Resolutions. See "DESCRIPTION OF THE 1997 BONDS -- Redemption -- *Mandatory Redemption of Senior Series 1997-A Bonds and Subordinate Series 1997-B Bonds From Unexpended Bond Proceeds*" and "THE CORPORATION -- The Corporation's Education Finance and Servicing Activities." The Corporation expects to apply a portion of the 1997 Bond proceeds to fund the Debt Service Reserve Account in the amount of the Initial Reserve Account Requirement and to pay costs of issuance in connection with the 1997 Bonds. The Corporation may also transfer funds in the Revenue Account to the Loan Account to be used to acquire or originate additional Student Loans until May 1, 2002, which date may be extended if a Rating Affirmation is obtained.

SECURITY AND SOURCES OF PAYMENT FOR THE 1997 BONDS

Limited Liability

The 1997 Bonds are special and limited obligations of the Corporation, secured by and payable solely from the Trust Estate, without recourse to any other assets of the Corporation. The 1997 Bonds do not constitute a debt of the Commonwealth or any political subdivision thereof, and the payment of the principal of and interest on the 1997 Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. Kentucky's name is on the 1997 Bonds for the benefit and convenience of other entities within the state. However, the only security which is pledged for the 1997 Bonds is the independent revenues and assets from the project. The General Assembly does not intend to appropriate any state funds to fulfill the financial obligation represented by the 1997 Bonds. The Corporation has no taxing power.

The Pledge of the General Bond Resolution

The Act provides that any pledge made by the Corporation shall be valid and binding from the time made and further provides that the income, revenue or other property so pledged and thereafter received by the Corporation shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien

of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof.

The General Bond Resolution establishes a pledge of the Trust Estate for the benefit of Owners of all Obligations on a basis of parity and, subject to the provisions of the General Bond Resolution, permitting the application thereof for the purposes of and on the terms and conditions set forth in the General Bond Resolution and provides that such pledge constitutes a perfected first lien thereon. The Trust Estate includes the following: (i) all moneys, including Bond proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) all other Revenues; and (v) all direct or indirect proceeds of any of the assets described in (i) through (iv) above.

Principal and Interest Payments on FFELP Loans

Payments of the principal of and interest on the Loans, including Interest Subsidy Payments, if any, with respect to FFELP Loans, are expected to be received by the Corporation in amounts sufficient, together with other revenues and amounts held under the Resolutions, to pay the principal of and interest on the 1997 Bonds when due. The Corporation is entitled to receive Interest Subsidy Payments from the Secretary with respect to each Federal Subsidized Stafford Loan for the entire amount of interest due on such loan during the period the student is in school, during grace periods, and during periods of deferment. During all other periods, interest on Federal Subsidized Stafford Loans is collected from the borrower. On Federal PLUS/SLS, Federal Unsubsidized Stafford Loans, and Federal Consolidation Loans, the Corporation collects interest payments from the borrower from the date of loan disbursement. Repayment of Federal Consolidation Loans commences within 60 days of the discharge of the lenders of the consolidated loans. For additional information on the FFELP Loans, see "THE CORPORATION" and "THE GUARANTY AGENCIES" herein and Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

Special Allowance Payments on FFELP Loans

The Corporation is also entitled to receive Special Allowance Payments with respect to FFELP Loans which the Secretary is required by the Higher Education Act to pay on a quarterly basis. The rate of the Special Allowance Payments is computed on the basis of the average bond equivalent rates of 91-Day Treasury Bills auctioned during the preceding calendar quarter.

The amount of Special Allowance Payments depends, among other things, upon the interest rate on the FFELP Loan to which it relates, the date on which such FFELP Loan was originated and, under certain circumstances, whether such FFELP Loan is financed on a taxable or tax-exempt basis. For further information on Special Allowance Payments, see Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM -- Special Allowance Payments".

Debt Service Reserve Account

The 1997 Bonds are secured by a Debt Service Reserve Account which is created by the General Bond Resolution and pledged to the security of all Obligations issued under the Resolutions. The Debt Service Reserve Account shall at all times be maintained at a level at least equal to the aggregate requirement therefor established under the Resolutions. The Initial Reserve Account Requirement established in connection with the issuance of the 1997 Bonds is 2% of the aggregate principal amount Outstanding of the 1997 Bonds. There is no assurance that the Reserve Account Requirement will be increased or maintained at such level and funded upon the issuance of any Additional Bonds or other Obligations. Upon the issuance of any Additional Bonds or other Obligations, amounts in the Debt

Service Reserve Account shall also secure payment of such Additional Bonds or other Obligations in accordance with the priority of payment established under the Resolutions. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS -- Establishment of Accounts".

Prior to using any monies in the Debt Service Reserve Account to make payments with respect to any Obligations, the Trustee is required to use amounts credited as cash to the Loan Account, without liquidating Loans credited thereto, and to deposit such amounts in the Revenue Account for the purpose of making such payments on the Obligations. Under the General Bond Resolution, the Trustee is required, on each Interest Payment Date, to transfer from the Revenue Account to the Debt Service Reserve Account, the amount, if any, necessary to cause the Debt Service Reserve Account to be funded at the Reserve Account Requirement, subsequent to paying the amounts due on the Senior Series 1997-A Bonds or any other Senior Bonds or other Obligations equal in priority with such Senior Series 1997-A Bonds which may be issued and certain other applications, but prior to making any payment on any Senior Subordinate Obligations or on the Subordinate Series 1997-B Bonds or other Subordinate Obligations. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS -- Establishment of Accounts".

Withdrawal of Excess Coverage

The General Bond Resolution provides that the Corporation may withdraw amounts from the Revenue Account, under certain circumstances, free and clear of the lien of the General Bond Resolution if, as certified to the Trustee by an Authorized Officer, there exists Excess Coverage after such withdrawal, and if the Corporation delivers a Cash Flow Projection to the Rating Agency, as provided in the General Bond Resolution. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS -- Definitions" and " -- Establishment of Accounts".

Additional Bonds and Other Obligations

The General Bond Resolution permits the issuance of Additional Bonds, or other Obligations, including Variable Rate Demand Bonds or Obligations, subject to certain conditions specified in the General Bond Resolution. Further, the Series Resolutions provide that the 1997 Bonds originally issued as ARCs may be converted to bear interest at a variable rate, as more fully described in the Series Resolutions. The priority of claim as to payment of such Additional Bonds or other Obligations under the General Bond Resolution may be equal to or inferior to that of the Senior Series 1997-A Bonds or may be superior or equal to that of the Subordinate Series 1997-B Bonds.

The General Bond Resolution also permits the Corporation to undertake additional Obligations pursuant to certain types of contracts ("Obligation Facilities" or "Swap Facilities"). The priority of payment of Obligation Facilities or Swap Facilities may be equal to or inferior to that of the Senior Series 1997-A Bonds and any other Senior Obligations or equal to or superior to that of any Subordinate Obligations, including the Subordinate Series 1997-B Bonds.

Prior to issuing Additional Bonds or entering into Obligation Facilities or Swap Facilities, the Trustee is required to receive a Rating Affirmation from each Rating Agency maintaining a rating on the 1997 Bonds that issuing such Additional Bonds or entering into such Obligation Facilities or Swap Facilities in and of itself will not have an adverse effect on the rating of any Outstanding Bonds.

Certain Considerations Affecting the Trust Estate

The availability under the General Bond Resolution of adequate amounts to fund the timely payment of Obligation debt service and other expenses required to be paid thereunder is dependent upon the performance of the Student Loans to be acquired as part of the Trust Estate pledged thereunder. The Corporation currently expects to apply all 1997 Bond proceeds initially available to finance Student Loans by May 1, 1999 to the acquisition, origination or refinancing of a portfolio of FFELP Loans. See "USE OF PROCEEDS" and Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM". The Corporation's current expectation that Revenues received with respect to the Student Loan portfolio will be sufficient to fund General Bond Resolution requirements, and the initial ratings assigned to the 1997 Bonds by the Rating Agency, are based upon cash flow projections derived from certain assumptions relative to Student Loan portfolio composition and performance. The

Corporation believes such assumptions to be reasonable based upon its historic and current FFELP Loan experience. There can be no assurance, however, that actual Student Loan portfolio results will conform to such projections. See "THE CORPORATION – The Corporation's Education Finance and Servicing Activities".

Revenues actually received with respect to the Student Loans may vary greatly in both timing and amount as a result of a variety of economic, social and other factors, including both individual factors, such as additional periods of deferral or forbearance prior to or after a borrower's commencement of repayment, loan consolidations or refundings, and general factors, such as a general economic downturn which could increase the amount of defaulted FFELP Loans. Failures by borrowers, guaranty agencies and the Department to make payments with respect to Student Loans on a timely basis, and the incidence of borrower defaults and prepayments, will affect the amount of Revenues received by the Corporation. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies."

The provisions of the Higher Education Act applicable to FFELP Loans, and the implementing regulations thereunder, constitute a comprehensive federal program controlling the terms and conditions of FFELP Loans, including certain fees and other amounts payable by the holders thereof, the administrative requirements applicable thereto and the related duties and permitted activities of FFELP participants. The Department has broad powers under the Higher Education Act to assure the compliance of FFELP participants with program requirements and a failure by a participant to so comply may result in substantial penalties, including the withholding by the Department of federal payments otherwise due to such participant under the program. The Department has additional powers under the Higher Education Act with respect to guaranty agencies and their reserves, including the ability, subject to certain requirements, to terminate the activities and to transfer the reserve fund assets of such entities. There can be no assurance that the exercise by the Department of such powers will not adversely affect the interests of Owners of 1997 Bonds. See "THE CORPORATION – The Corporation's Education and Servicing Activities - *Servicing of FFELP Loans and FDSL P Loans*", "GUARANTY AGENCIES" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM". Such provisions and regulations have been the subject of extensive amendment in recent years. There can be no assurance that further amendments thereto, or that other federal legislation, will not adversely affect the interests of Owners of 1997 Bonds. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters", "– Federal Budgetary Constraints" and "– Federal Direct Student Loan Program".

If an Event of Default occurs under the Resolutions which causes Owners of Senior Obligations to fail to receive interest or principal payments when due, the Trustee is authorized, subject to certain conditions, to sell the Student Loans pledged thereunder. There can be no assurance, however, that the Trustee would be able to find a purchaser for such Student Loans in a timely manner or that the proceeds of any such sale, together with amounts then available in the Debt Service Reserve Account, would be sufficient to fund payment of the Outstanding 1997 Bonds and accrued interest thereon. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS".

DESCRIPTION OF THE 1997 BONDS

General

1997 Bonds. The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are being issued as Auction Rate Certificates – ARCs ("ARCs"). The Applicable ARCs Rate is to be established from time to time pursuant to Auction Procedures described below under "AUCTION RATE CERTIFICATES -- Interest". The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are expected to be delivered, are dated and will mature as set forth on the cover page hereof. The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are issued as fully registered bonds in denominations of \$50,000 or any integral multiple thereof (an "Authorized Denomination"). Initially, the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds will only be registered in the name of Cede & Co. as nominee of DTC. See "BOOK ENTRY SYSTEM". Interest on the Senior Series 1997-A Bonds, prior to a change in the Interest Payment Date as described below, is payable on the Business Day following the end of each Interest Period, and at maturity or earlier redemption. Interest on

the Subordinate Series 1997-B Bonds, prior to a change in the Interest Payment Date as described below, is payable on November 1, 1997, and on each May 1 and November 1 thereafter until maturity or earlier redemption; provided, that if such date is not a Business Day, such interest will be payable on the next succeeding Business Day (but only for interest accrued through the preceding April 30 or October 31, as the case may be). Interest on the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds is payable to the beneficial owners thereof according to the procedures described under "BOOK ENTRY SYSTEM". Principal of the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds is payable upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee. The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are subject to acceleration and redemption, as described below.

Redemption Provisions

The Resolutions provide for the redemption and acceleration of the 1997 Bonds prior to maturity, as described below. In the event that the 1997 Bonds are to be redeemed in part, the 1997 Bonds are to be redeemed only in the then Authorized Denominations of such Series and in such maturity or maturities thereof as the Corporation shall determine, and the 1997 Bonds of a Series to be redeemed within a maturity are to be selected by lot or such other manner as the Trustee shall determine in accordance with the Resolutions, except as otherwise described below.

Mandatory Redemption of Senior Series 1997-A Bonds and Subordinate Series 1997-B Bonds from Unexpended Bond Proceeds. The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are subject to redemption by the Corporation at any time, in whole or in part as described below, at a redemption price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption, from proceeds of the Senior Series 1997-A Bonds or Subordinate Series 1997-B Bonds deposited to the Loan Account upon the issuance thereof which have not been applied to finance Student Loans on or before May 1, 1999, unless such date is extended if a Rating Affirmation is obtained.

Optional Redemption of 1997 Bonds. The 1997 Bonds are subject to redemption prior to maturity, at the option of the Corporation on any Interest Payment Date, in whole or in part, as described below at a redemption price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption.

Selection of 1997 Bonds to be Redeemed. Any 1997 Bonds to be redeemed shall, except as otherwise described below, be selected by the Corporation by any one of the following means: (i) first, all Senior Bonds, second, all Senior Subordinate Bonds and subsequently, all Subordinate Bonds of each successive next most senior Class; or (ii) pro rata among all classes of Bonds Outstanding; or (iii) if neither clause (i) nor (ii) is followed, then in such order as the Corporation shall determine, provided that either the Corporation receives a Rating Affirmation or the Trustee receives a Certificate of the Corporation to the effect that the value of the Loans (valued at par plus accrued interest and accrued special allowance payments, if any) credited to the Loan Account and all cash and Investment Securities held in the Accounts (valued as set forth in the General Bond Resolution, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the General Bond Resolution and excluding amounts on deposit in the Rebate Account and the Earnings Account), will not be less than each and all of the following sums, after giving effect to such redemption: (a) at least 106% of the sum of the principal of and accrued interest on all Outstanding Senior Obligations plus all accrued but unpaid Program Expenses; (b) at least 103% of the sum of the principal of and accrued interest on all Outstanding Senior and Senior Subordinate Obligations plus all accrued but unpaid Program Expenses, and (c) at least 102% of the sum of the principal of and accrued interest on all Outstanding Obligations plus all accrued but unpaid Program Expenses.

Notice of Redemption of 1997 Bonds. The Trustee will give notice of redemption by mailing a copy of the redemption notice by first class mail, postage prepaid, to the registered owners of any 1997 Bonds to be redeemed at the address of such owner appearing on the registration books of the Trustee. Notice of redemption will be given not more than 30 days nor less than 10 days prior to the redemption date. Such notice shall state whether

the Trustee then holds sufficient monies to fund such redemption and whether such redemption is dependent upon the issuance of refunding obligations or the deposit of funds from other sources by the Corporation. Neither failure to give such notice nor any defect therein will affect the validity of the proceedings for redemption of any 1997 Bond not affected by such failure or defect. While the 1997 Bonds are held by DTC or its nominee notice of redemption shall be given to DTC or its nominee. See "BOOK ENTRY SYSTEM".

Effect of Redemption. Notice having been given as aforesaid, the 1997 Bonds called for redemption will become due and payable on the Redemption Date at the redemption price, plus accrued interest to the Redemption Date. If, on the Redemption Date, moneys for the redemption of the 1997 Bonds to be redeemed, together with interest to the Redemption Date, are held by the Trustee or any Paying Agent so as to be available therefor on said date, interest on the 1997 Bonds called for redemption will cease to accrue on the Redemption Date.

Acceleration of the 1997 Bonds. Upon the occurrence of certain Events of Default under the Resolution, the 1997 Bonds may be subject to acceleration as described herein. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS".

The Resolutions provide that nonpayment of the principal of or interest on Senior Subordinate Obligations or Subordinate Obligations occurring while there are any Senior Obligations Outstanding which are not affected by the nonpayment, shall not result in an Event of Default under the Resolutions that would give rise to a right on the part of owners of affected Obligations to accelerate the 1997 Bonds or to exercise any other remedy. The Resolutions provide that only owners of the most senior Class of Outstanding Obligations may exercise any remedy or right of enforcement or consent to any action thereunder in the event of nonpayment of Outstanding Obligations, and requires the consent of all owners of Outstanding Obligations to exercise any right or remedy under the Resolutions for any Event of Default other than nonpayment.

Recycling Provision. The Resolutions permit the Corporation to use revenues received on the Student Loans for the origination or acquisition of Student Loans until May 1, 2002. After such date, no amount may be transferred from the Revenue Account to the Loan Account unless the Corporation receives a Rating Affirmation permitting the Corporation to extend the date.

Registration of Transfer and Exchange

In the event that the Book Entry System is discontinued, and subject to the procedures for the transfer or exchange of ARCs as described under "AUCTION RATE CERTIFICATES", then upon surrender for transfer or exchange of any 1997 Bond at the corporate trust office of the Trustee, the Corporation will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees, a new 1997 Bond of the same Series and Subseries in exchange for the Senior Series 1997-A Bond or the Subordinate Series 1997-B Bond being transferred or exchanged, of Authorized Denominations, of like aggregate principal amount and bearing numbers not previously assigned to such 1997 Bonds.

The Trustee will require the payment by any owner of 1997 Bonds requesting exchange or transfer of a sum sufficient to cover any tax or other governmental charge required to be paid with respect to such exchange or transfer. Every 1997 Bond presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee, duly executed, by the owner thereof or his attorney duly authorized in writing, with signature guarantees satisfactory to the Trustee.

The Trustee is not required to transfer any 1997 Bond (i) during a period beginning at the opening of business 15 days before any selection of 1997 Bonds of the same Series for redemption and ending at the close of business on the day of such selection, or (ii) selected for redemption in whole or in part.

BOOK ENTRY SYSTEM

Beneficial ownership interests in the 1997 Bonds will be available in book entry form only. Purchases and sales by the beneficial owners of Senior Series 1997-A Bonds of each Subseries and of Subordinate Series 1997-B Bonds can be made in denominations of \$50,000 or any integral multiple thereof. Purchasers of beneficial ownership interests in the 1997 Bonds will not receive certificates representing their interests in the 1997 Bonds purchased and will not be Holders under the Resolution, except as described below.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1997 Bonds under the DTC system must be made by or through Direct Participants, which are to receive a credit for the 1997 Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in the 1997 Bonds is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transactions. Transfers of ownership interests in the 1997 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in 1997 Bonds, except in the event that use of the book-entry system for the 1997 Bonds of the applicable Series and Subseries is discontinued.

To facilitate subsequent transfers, all 1997 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 1997 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 1997 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1997 Bonds are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners shall be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 1997 Bonds within a single maturity, Series and Subseries are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1997 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Trustee as soon as possible after the record date. The omnibus

proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 1997 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption premium, if any, and interest payments on the 1997 Bonds are to be made to DTC. Payments by Participants to beneficial owners shall be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

For every transfer and exchange of a beneficial ownership interest in the 1997 Bonds, the beneficial owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the 1997 Bonds of any Series or Subseries at any time by giving notice to the Corporation and the Trustee and discharging its responsibilities with respect thereto under applicable law. In the event that no satisfactory substitute depository is found to replace DTC, or if the Corporation determines that beneficial owners should be able to obtain 1997 Bond certificates as to any Series or Subseries, the Corporation is obligated to deliver 1997 Bonds of such Series and Subseries, at the expense of the beneficial owners as described in the Resolution.

The preceding information in this section "BOOK ENTRY SYSTEM" was provided by DTC for inclusion herein, and has not been independently verified by the Corporation or the Underwriter. No representation is made by the Corporation or the Underwriter as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof

Neither the Corporation nor the Trustee shall have any responsibility or obligation to any DTC Participant, any beneficial owner or other persons claiming a beneficial ownership interest in the 1997 Bonds under or through DTC or any DTC Participant, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 1997 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 1997 Bonds to any beneficial owner or other person for the 1997 Bonds; or (iii) the delivery to any beneficial owner of the 1997 Bonds, or any other person of any notice which is permitted or required to be given to owners under the Resolution. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the DTC Participants or the DTC Participants will distribute to the beneficial owners (i) payment of debt service on the 1997 Bonds paid to DTC or its nominee, as the registered owner, or (ii) any redemption or other notices, or that DTC or the DTC Participants will serve or act on a timely basis or in a manner described in this Official Statement.

AUCTION RATE CERTIFICATES

General

The Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are issued as Auction Rate Certificates (sometimes hereinafter referred to as ARCs), shall be dated the date of initial delivery thereof and shall mature on the dates shown on the cover of this Official Statement. Upon the delivery by the Corporation to the Trustee of a Favorable Opinion, any Series or Subseries of the ARCs may be converted to bear interest at a variable rate, as more fully described in the Series Resolutions. Certain capitalized terms used herein with respect to the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds are defined herein or in other parts of this Official Statement, including the Appendices hereto.

Interest

Interest Payments. Interest on the ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Period" means with respect to ARCs, (a) if, and for so long as interest is payable on May 1, and November 1 with respect thereto and unless otherwise changed as described below under "*Changes in Auction Periods or Auction Date – Changes in Auction Period or Periods*," the period commencing on the date of issue of the Subordinate Series 1997-B Bonds through and including June 16, 1997 as to the Subordinate Series 1997-B Bonds, and each successive 35-day period thereafter, respectively, commencing on a Tuesday and ending on (and including) a Monday and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as described below under "*Changes in Auction Periods or Auction Date – Changes in Auction Period or Periods*," the period commencing on the date of issue of the applicable Subseries of the ARCs through and including June 16, 1997 as to the Senior Series 1997-A-1 Bonds and June 23, 1997 as to the Senior Series 1997-A-2 Bonds and thereafter each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date. An "Interest Payment Date" for the Senior Series 1997-A Bonds Outstanding as ARCs shall mean the day following the end of each Interest Period and at maturity or earlier redemption, or if such day is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of each Interest Period). An "Interest Payment Date" for the Subordinate Series 1997-B Bonds Outstanding as ARCs means November 1, 1997 and each May 1 and November 1 thereafter and at maturity or earlier redemption, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding April 30 and October 31 as the case may be). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods or in certain other events. See "*Changes in Auction Periods or Auction Date – Changes in Auction Period or Periods*" below.

While the ARCs are in book-entry only form, the amount of interest distributable to holders of ARCs in respect of each \$50,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate (as defined below) for such Interest Period or part thereof to the principal amount of \$50,000, multiplying such product by the actual number of days in the Interest Period or part thereof divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after November 1 of any year preceding a leap year through October 31 of the next succeeding year (being the leap year), such interest shall be computed on the basis of a 366-day year period. In the event an Interest Payment Date occurs in any Interest Period on a date other than the first day of such Interest Period, the Trustee, after confirming the calculation required above, shall calculate the portion of the Interest Amount payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date. The Trustee shall make the calculation described above not later than the close of business on each Auction Date.

Interest payments on the ARCs are to be made by the Paying Agent to the persons who are the registered owners of the ARCs, as of the Record Date preceding each Interest Payment Date. The ARCs will be initially registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the ARCs. See "**BOOK-ENTRY SYSTEM**" for a description of how DTC, as owner, is expected to disburse such payments to the beneficial owners.

Applicable ARC Rate. The rate of interest on the ARCs for each Interest Period subsequent to the Initial Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix E (the "Auction Rate") unless, in the case of either Subseries of the Senior Series 1997-A Bonds, the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the affected ARCs for such Interest Period shall be the Maximum Rate, or unless the Maximum Rate shall actually be lower than the All-Hold Rate, in which case the rate of interest on the affected ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal the Maximum Rate on such Auction Date. Notwithstanding the foregoing, (i) if the ownership of the ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the ARCs for any Interest Period commencing after the delivery of certificates representing ARCs as described above shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period, or (ii) if a Payment Default occurs, Auctions will be suspended and the Applicable ARC Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate.

The rate per annum at which interest is payable on the ARCs for any Interest Period is herein referred to as the "Applicable ARC Rate". Notwithstanding anything herein to the contrary, the Applicable ARC Rate cannot exceed the Maximum Rate.

Notwithstanding anything herein to the contrary, if any ARCs or portion thereof has been selected for redemption during the next succeeding Interest Period, such ARCs or portion thereof will not be included in the Auction preceding such Redemption Date, and will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

Carry-over Amounts for Senior Series 1997-A Bonds. If the Auction Rate for either Subseries of the Senior Series 1997-A Bonds is greater than the Maximum Rate, then the interest rate applicable to such Subseries of the Senior Series 1997-A Bonds for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Auction Rate Certificates at the Auction Rate over the amount of interest actually accrued at the Maximum Rate will accrue and be designated as the Carry-over Amount. The Carry-over Amount will bear interest calculated at the rate equal to One-Month LIBOR (as determined by the Auction Agent, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid. As used in the Series Resolution, the terms "principal" and "interest" do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount will be calculated for each affected Senior Series 1997-A Bond by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice of such Carry-over Amount to each Owner of an affected Senior Series 1997-A Bond as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has accrued, the Trustee will give written notice of such Carry-over Amount to each Owner of an affected Senior Series 1997-A Bond on which a Carry-over Amount has accrued of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each such Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first class mail, postage prepaid, to each such Owner at such Owner's address as it appears on the books of registry maintained by the Trustee. Such notice will state, in addition to such Carry-over Amount, that unless and until such Senior Series 1997-A Bond has been redeemed or has been deemed no longer Outstanding (after which all accrued Carry-over Amount (and all accrued interest thereon) that remains unpaid will be extinguished and no Carry-over Amount (or interest accrued thereon) will be paid with respect to such Senior Series 1997-A Bond): (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee on such Senior Series 1997-A Bond on the next occurring Interest Payment Date, and each succeeding Interest Payment Date until paid, for each Auction Period subsequent to the Auction Period in which such Carry-over Amount accrued, if and to the extent that (1) during such subsequent Auction Period, no additional Carry-over Amount is accruing on such Senior Series 1997-A Bond and, if paid, such Carry-over Amount is paid solely to the extent that during such Auction Period, the amount of interest that would be payable on such Senior Series 1997-A Bond at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period on such Senior Series 1997-A Bond at

the interest rate in effect for such Auction Period and (2) moneys are available in an amount sufficient to pay all or such portion of Carry-over Amount as described in clause (1) above; and (ii) interest will accrue on the Carry-over Amount at a rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is canceled.

The Carry-over Amount for a Senior Series 1997-A Bond will be paid by the Trustee to the then registered Owner on the next occurring Interest Payment Date, and each succeeding Interest Payment Date to the then registered Owner until paid, for a subsequent Auction Period if and to the extent that: (i) during such subsequent Auction Period, no additional Carry-over Amount is accruing on such Senior Series 1997-A Bond; (ii) and if paid, such Carry-over Amount is payable solely to the extent that during such Auction Period, the amount of interest that would be payable on such Auction Rate Certificates at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period at the interest rate in effect for such Auction Period; and (iii) on such Interest Payment Date, there are sufficient moneys in the Revenue Fund to pay first: all interest due on the Bonds on such Interest Payment Date and second: a portion or all of the Carry-over Amount described in clause (ii) above, after giving effect to the payment of allowable Program Expenses and all other prior required applications under the Resolutions, so long as, subsequent to such payments, the sum of the value of: (i) the Loans (valued at par plus accrued interest and accrued special allowance payments, if any) credited to the Loan Account; and (ii) all cash and Investment Securities held in the Accounts (valued as set forth in the General Bond Resolution, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the General Bond Resolution and excluding amounts on deposit in the Rebate Account and the Earnings Account) shall be at least equal to 101% of the sum of principal of and accrued interest on the Outstanding Obligations. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS -- Establishment of Accounts". If the Carry-over Amount is payable as described in the immediately preceding sentence with respect to any Subseries of the Senior Series 1997-A Bonds and any other Series or Subseries of Bonds equal in priority of payment therewith on the same day and there are insufficient funds in the Revenue Account to pay Carry-over Amount for each such Series or Subseries in the amount described in the immediately preceding sentence, the portion of Carry-over Amount payable with respect to each such Series or Subseries shall equal the product of the monies in the Revenue Account available to pay Carry-over Amount multiplied by a fraction, the numerator of which is the excess calculated for each such Series or Subseries as described in the preceding sentence and the denominator of which is the total Carry-over Amount payable with respect to each such Series or Subseries.

Any Carry-over Amount (and any interest accrued thereon) on any Senior Series 1997-A Bond which is due and payable on an Interest Payment Date, which Senior Series 1997-A Bond is to be redeemed or deemed no longer Outstanding on said Interest Payment Date, will be paid to the Owner thereof on said Interest Payment Date to the extent that monies are available therefor in accordance with the provisions of the Resolutions; provided, however, that any Carry-over Amount (and any interest accrued thereon) which is not yet due and payable on said Interest Payment Date will be canceled with respect to each Senior Series 1997-A Bond that is to be redeemed or deemed no longer Outstanding on such Interest Payment Date and will not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof, such unpaid portion of the Carry-over Amount will be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary for a subsequent Auction Period or Periods, if and to the extent that the conditions in the Resolutions are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Senior Series 1997-A Bond, the Trustee will give written notice to the Owner of such Senior Series 1997-A Bond receiving such partial payment of the Carry-over Amount remaining unpaid on such Bond.

Whether the Carry-over Amount for a Senior Series 1997-A Bond will be paid on any particular Interest Payment Date in each subsequent Auction Period will be determined as described above and the Trustee will make payment of the Carry-over Amount in the same manner as and from the same Account from which it pays interest on the Auction Rate Certificates on any Interest Payment Date.

ANY UNPAID CARRY-OVER AMOUNT ON A SENIOR SERIES 1997-A BOND NOT DUE AND PAYABLE ON MATURITY OR THE REDEMPTION DATE WITH RESPECT TO SUCH SENIOR SERIES 1997-A BOND WILL BE EXTINGUISHED UPON THE MATURITY OR REDEMPTION OF SUCH SENIOR SERIES 1997-A BOND.

Auction Participants

Existing Holders and Potential Holders. Participants in each Auction will include: (i) "Existing Holders," which shall mean any person who has signed a letter in the form attached as Appendix G hereto and is listed as the owner of record of ARCs in the records of the Auction Agent (described below) at the close of business on the Business Day preceding each Auction; and (ii) "Potential Holders," which shall mean any person, including any Existing Holder, who shall have executed (and not withdrawn or terminated) a letter in the form attached as Appendix G hereto and who may be interested in acquiring ARCs (or, in the case of an Existing Holder, an additional principal amount of ARCs).

By purchasing ARCs, whether in an Auction or otherwise, each prospective purchaser of ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in Appendix E hereto; (ii) so long as the beneficial ownership of the ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix E) in an Auction, or to or through a Broker-Dealer or to a person who has delivered a signed letter in the form attached as Appendix G hereto to the Auction Agent, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of ARCs so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant of DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. Bankers Trust Company, New York, New York ("Bankers Trust") is appointed as the initial Auction Agent for the ARCs. The Trustee is directed to enter into the initial Auction Agency Agreement with Bankers Trust which provides as follows: The Auction Agent shall be: (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least \$15,000,000; or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolutions and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolutions by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either: (i) the Corporation, or (ii) the holders of 66-2/3% of the aggregate principal amount of the ARCs by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting as agent for the Corporation in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer", including PaineWebber Incorporated as the sole initial Broker-Dealer or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which: (i) is a "Participant" (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant; (ii) has a capital surplus of at least \$50,000,000; (iii) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld); and (iv) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described below, as from time to time amended or supplemented.

Market Agent. The "Market Agent", initially PaineWebber Incorporated, will enter into a Market Agent Agreement with the Corporation to perform such functions as required under the Resolutions. Under the Market Agent Agreement, and in connection with the ARCs, the Market Agent shall act solely as agent of the Corporation and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners.

Auctions

Auctions to establish the Applicable ARCs Rate are to be held on each Auction Date, except as described above under "*Interest - Applicable ARCs Rate*," by application of the Auction Procedures described in Appendix E. "Auction Date" shall mean initially June 16, 1997 with respect to the Senior Series 1997-A-1 Bonds, June 23, 1997 with respect to the Senior Series 1997-A-2 Bonds and June 16, 1997 with respect to the Subordinate Series 1997-B Bonds, and thereafter, the Business Day immediately preceding the first day of each respective Interest Period, other than: (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by DTC; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "*Changes in Auction Periods or Auction Date - Changes in Auction Period or Periods*".

The Auction Agent shall determine the Maximum Rate, the Maximum Auction Rate, the After-Tax Equivalent Rate, the "AA" Composite Commercial Paper Rate, the All-Hold Rate, and the One-Month LIBOR with respect to each Series and Subseries of ARCs on each applicable Auction Date. The determination by the Auction Agent of each of such rates will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the ARCs of any Series or Subseries is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate and the "AA" Composite Commercial Paper Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of certificates representing the ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Default Rate on the first day of: (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default; and (ii) any Interest Period commencing less than the Applicable Number of Business Days after the cure of any Payment Default.

So long as the ownership of the ARCs of any Series or Subseries is maintained in book-entry form by DTC, an Existing Holder may sell, transfer or otherwise dispose of such ARCs only pursuant to a Bid or Sell Order (as defined in Appendix E) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction

Date, in the manner described in Appendix E. A description of the Settlement Procedures to be used with respect to Auctions is contained in Appendix F.

Adjustments in Percentages

The Market Agent, with respect to the Subordinate Series 1997-B Bonds Outstanding as ARCs (herein, "Series B ARCs"), shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that the Series B ARCs paying the Maximum Rate, the Series B ARCs paying the All-Hold Rate and the Series B ARCs paying the Default Rate shall have substantially the same market values before and after such Change in Preference Law. Prior to any such adjustment, the Corporation shall give notice thereof to the Rating Agencies, and no such adjustment shall be made unless the Corporation delivers a Rating Affirmation and a Favorable Opinion as required by the Resolutions. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change in Preference Law, into account: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Series B ARCs; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the Series B ARCs.

The Market Agent shall effectuate an adjustment in the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the percentage of the Kenny Index used to determine the Default Rate by delivering written notice to the Corporation, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change. Such notice shall be effective only if it is accompanied by a Favorable Opinion.

Changes in Auction Periods or Auction Date

Changes in Auction Period or Periods. While any ARCs are outstanding, the Market Agent may change, upon meeting certain conditions, the length of one or more Auction Periods applicable to any Series or Subseries. In connection with any such change or otherwise, the Market Agent may change Interest Payment Dates to or from semiannual payments on May 1 and November 1 of each year or to or from Interest Payment Dates specified to correspond to the end of each Interest Period and Auction Period; any such change shall be considered a "change in the length of one or more Auction Periods" for purposes of the Resolutions. Any change in the length of the Auction Period requires the consent of the Corporation and must be made for the purpose of conforming to current market practice with respect to certain securities. Any such changed Auction Period shall not be less than 7 days.

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix E) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Resolutions, including, with respect to the Subordinate Series 1997-B Bonds, delivery by the Corporation of a Favorable Opinion as required by the Resolutions.

1. *Changes in the Auction Date.* While any ARCs are outstanding, the Market Agent:

- (i) in order to conform with then current market practice with respect to similar securities, shall; and
- (ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs and with the written consent of an Authorized Official of the Corporation, may

specify an earlier Auction Date applicable to any Series or Subseries (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Authorized Officer of the Corporation shall not consent to such change in the Auction Date, if such consent is required as described in (ii) above, unless he or she shall have received from the Market Agent not less than ten days nor more than 20 days prior to the effective date of such change a written request for consent together with a Certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Corporation and DTC.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No change shall be made to the Auction Period or Auction Date unless the Corporation delivers a Rating Affirmation, and with respect to the Subordinate Series 1997-B Bonds, a Favorable Opinion as required by the Resolutions.

THE CORPORATION

The General Assembly of the Commonwealth established the Kentucky Higher Education Student Loan Corporation (the "Corporation") in 1978 to provide a program of financing, making and purchasing insured student loans in the Commonwealth.

Governance and Functions

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth. The Corporation is authorized by the Act: (a) to make, purchase and sell, and to participate in the making, purchasing and selling of insured student loans; (b) to collect and pay reasonable fees and charges in connection with its making, purchasing, selling and servicing of insured student loans; (c) to procure insurance in respect of all insured student loans made or purchased by it; (d) to make, execute, and effectuate agreements with any federal or state agency, person, or entity necessary to accomplish its corporate purposes; (e) to accept and comply with the conditions of any appropriations, loans, grants, and other aid to the Corporation; (f) to invest its funds not required for immediate disbursement; (g) to issue its notes and bonds for the purpose of carrying out its corporate powers and duties; and (h) to service and collect educational loans for other lenders, holders and educational institutions.

The term "insured student loans" is currently defined for purposes of the Act to include loans to students who are qualified under the federal Higher Education Act of 1965, as amended, on which the payment of principal and interest is at least ninety-five percent insured by a guaranty agency and reinsured by the Secretary in accordance with the Higher Education Act or at least ninety-five percent insured as to principal amount by the federal government under the Higher Education Act or the Health Professions Educational Assistance Act of 1976, as amended.

A Task Force on Postsecondary Education was established in 1996 by the General Assembly of the Commonwealth for the purpose of developing recommendations and an implementation plan for a system of postsecondary education in Kentucky that promotes quality instruction designed to provide students with the knowledge and skills necessary to be competitive in a global economy. The Task Force is required to report its findings and recommendations with enabling legislation to the Governor and the Legislative Research Commission of the Commonwealth no later than September 1, 1997. There can be no assurance as to the nature of such findings or recommendations. On April 23, 1997, the Governor of the Commonwealth issued a proclamation convening the General Assembly to meet in an extraordinary session beginning May 12, 1997, to consider improvements to the Commonwealth's system of postsecondary and technical education. The Corporation does not expect, however, that

any legislation which might be enacted in response to the Task Force's report or the Governor's proclamation would adversely affect the security for the Bonds under the Act and the General Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1997 BONDS -- The Pledge of the General Bond Resolution" and "THE CORPORATION -- The Corporation's Education Finance and Servicing Activities -- *Availability of Student Loans*".

The Corporation is governed by its Board of Directors, which may officially act by a majority of its members. The Board of Directors consists of eleven members, of whom eight are appointed by the Governor from the general public residing in the Commonwealth to serve a term of four years each and three serve *ex officio* by reason of their positions as Chairman of the Council on Higher Education of the Commonwealth, Secretary of the Finance and Administration Cabinet of the Commonwealth, and Chairman of the Board of Directors of KHEAA. The Board of Directors elects from its membership a Chairman and Secretary-Treasurer.

The Corporation's Chairman, Secretary-Treasurer and other directors are as follows:

Board of Directors of the Corporation

<u>Name of Director</u>	<u>Principal Occupation</u>
Louis R. Straub II Chairman	Vice President Bank One Kentucky Corp. Louisville, Kentucky
Phillip D. Bond Secretary-Treasurer	Vice President, Finance and Administration Metro United Way Louisville, Kentucky
Austin B. Carroll	General Manager Hopkinsville Electric System Hopkinsville, Kentucky
Jim A. Jackson	Department of Education Commonwealth of Kentucky Frankfort, Kentucky
K.L. Moore	Pastor First Baptist Church Frankfort, Kentucky
Brent D. Thompson	Vice President PNC Bank, Kentucky, Inc. Radcliff, Kentucky
R. Wayne Stratton (<i>ex officio</i>) Chairman, Kentucky Higher Education Assistance Authority	Co-Managing Owner Jones, Nale & Mattingly, PLC Louisville, Kentucky
Leonard V. Hardin (<i>ex officio</i>) Chairman, Council on Higher Education	Chairman National City Bank of Kentucky Louisville, Kentucky
John P. McCarty (<i>ex officio</i>)	Secretary Finance and Administration Cabinet Commonwealth of Kentucky Frankfort, Kentucky

In accordance with the Act, the Executive Director of KHEAA, Paul P. Borden, is also Executive Director of the Corporation.

The Corporation has a staff of approximately 100 full-time employees as of February 28, 1997, most of whom are currently assigned to its ongoing Federal Family Education Loan Program activities described below. The Corporation expects to hire additional employees during the current calendar year in connection with the establishment of a separate group to be assigned to the Federal Direct Student Loan Program, servicing activities described below. Its principal office is located at 10180 Linn Station Road, Post Office Box 24266, Louisville, Kentucky, 40224-0266, telephone number (502) 329-7079.

Principal Management Personnel

Principal management personnel involved in the Corporation's Education Finance and Servicing Activities are as follows:

Paul P. Borden, Executive Director and Chief Executive Officer, has overall management responsibility for the Corporation. He has served in this capacity since 1978 and has also served as Executive Director of KHEAA since 1972. He is a past president and current member of the Board of Directors of the National Council on Higher Education Loan Programs and has testified many times before various committees of the U.S. Congress on matters related to the Federal Family Education Loan Program. Before joining KHEAA and the Corporation, he served in administrative positions at Kentucky State University and the University of Louisville. Mr. Borden holds a B.A. degree in Business Administration from the University of Louisville.

Roger B. Tharp, President and Chief Operating Officer, has overall responsibility for the Corporation's operations. Before this appointment in 1993, he was Director of the Division of Program Administration for KHEAA for nineteen years. He has served as Secretary for the National Council on Higher Education Loan Programs and served on its Servicing Committee. He is also a member of the Student Loan Servicing Alliance and currently serves on its Executive Committee. His previous employment includes six combined years of financial aid management experience at the United Electronics Institute and the University of Louisville, and one year in credit management for Sears, Roebuck and Company. Mr. Tharp holds an M.B.A. from the University of Louisville and a B.S. degree in Business and Economics from the University of Kentucky.

Betty P. Barker, Executive Vice President and Chief Financial Officer, has overall responsibility for the Corporation's financial and administrative affairs. Prior to this appointment in 1993, she was employed by KHEAA for seven years in financial management and accounting positions serving as Assistant Director of the Division of Fiscal Affairs for the last three years. She currently serves on the Finance Committee of the Education Finance Council. Her previous employment includes four years in auditing and accounting in industry and government. Ms. Barker is a Certified Public Accountant and holds an M.B.A. from Bellarmine College, Louisville, and a B.S. degree in Accounting from the University of Kentucky.

Sherry M. Cooper, General Counsel, has overall responsibility for all general legal and compliance activities. Ms. Cooper joined the Corporation in April 1997, after serving as an attorney with the Kentucky Department of Insurance. Her previous employment also includes serving an appointment as a member of the Kentucky Health Policy Board, two years in the private practice of law, and four years with Legal Services. Ms. Cooper holds a J.D. from Chase College of Law, and a B.A. in Elementary Education from the College of the Ozarks, Missouri.

Sally L. Wagner, Student Loan Servicing Manager, is responsible for loan servicing operations, loan acquisitions and origination, and portfolio conversions. Ms. Wagner joined the Corporation in 1994 and previously served as Loan Servicing Administrative Supervisor. Her previous employment includes economic development and commercial lending positions with the Chester County Development Council in Pennsylvania. Ms. Wagner holds

an M.B.A. from Corpus Christi State University, Texas, and a B.S. degree in Psychology and Economics from Stephen F. Austin State University, Texas.

Edward P. O'Neill, Controller, is responsible for accounting systems, financial reporting, budgeting, and accounting operations. Before joining the Corporation in 1995, he served five years as Controller for a corporation in Michigan. His previous employment also includes nine combined years of experience in operations and financial management in the banking and securities industries. Mr. O'Neill is a Certified Public Accountant and holds an M.B.A. from the University of Chicago and a B.A. in Economics from Yale University.

Lee E. Watkins, Client Relations Manager, is responsible for business development and marketing activities. Prior to his employment with the Corporation in 1995, he served as Associate Director, Education Finance Service, with the College Board in Atlanta for five years, and served a total of twenty-four (24) years at Western Kentucky University, as Director and Assistant Director of Student Financial Aid. Mr. Watkins holds a B.S. in Agriculture from Western Kentucky University.

James F. Williams, Compliance and Operational Support Manager, is responsible for student loan compliance and operational support activities including ensuring compliance with applicable federal and guarantor regulations and policies, development of internal systems and procedures, systems analysis, and technical support. Prior to joining the Corporation in 1995, he was employed for two years with Pennsylvania Higher Education Assistance Agency, Student Loan Servicing Center, as Compliance Supervisor, and four years with EduServ and Wachovia Bank, North Carolina, in the loan servicing area. Mr. Williams holds an M.B.A. in Operations Management from Wake Forest University and a B.S. from Penn State University.

The Corporation's Education Finance and Servicing Activities

General. The Corporation's Education Finance and Servicing Activities currently include: (i) the origination and secondary market acquisition of education loans originated pursuant to the Federal Family Education Loan Program ("FFELP Loans") and the federal Health Education Assistance Loan Program ("HEAL Loans"); (ii) the financing of FFELP Loans; and (iii) the servicing of FFELP Loans and of education loans originated pursuant to the Federal Direct Student Loan Program ("FDSLPL Loans"). The Corporation reserves the right to expand its Education Finance and Servicing Activities to include the origination, acquisition, financing and servicing of other education loans, subject to compliance with applicable law and contractual requirements. The 1997 Bonds are being issued for the purpose of providing funds for the financing, or refinancing, of FFELP Loans. The General Bond Resolution conditions the expenditure of funds which are credited to the Loan Account to finance education loans other than FFELP Loans upon receipt of a Rating Affirmation.

FFELP Loan Origination and Acquisition. The Corporation is an eligible lender for purposes of the Federal Family Education Loan Program and originates FFELP Loans both for its own account and on behalf of other eligible lenders. Certain origination functions are performed for the Corporation by KHEAA. In addition, the Corporation acquires FFELP Loans from other eligible lenders, both pursuant to ongoing contractual obligations and on a transactional basis. 118 lending institutions currently refer loan applications to the Corporation for origination and 3 lending institutions currently participate in the secondary market program.

FFELP Loan Financing. The 1997 Bonds constitute the initial issuance by the Corporation of Bonds under the General Bond Resolution. Upon delivery of the 1997 Bonds, the Corporation will have established three separately financed FFELP Loan portfolios.

Prior to 1996, all FFELP Loans acquired by the Corporation were financed through application of proceeds of Insured Student Loan Revenue Bonds of the Corporation issued pursuant to the 1983 Resolution. The 1983 Resolution permits the application of funds held thereunder to finance FFELP Loans which are guaranteed by KHEAA or insured directly by the Secretary of Education and HEAL Loans. There are currently outstanding \$327,230,000 principal amount of Insured Student Loan Revenue Bonds which constitute special obligations of the

Corporation secured solely by the trust estate established under the 1983 Resolution (the "1983 Trust Estate") which included approximately \$291,000,000 outstanding principal amount of FFELP Loans as of December 31, 1996.

The Corporation has entered into a forward finance agreement dated as of December 30, 1996 with the Student Loan Marketing Association ("SLMA") pursuant to which SLMA has agreed to make advances to the Corporation from time to time prior to December 30, 1999 in an aggregate principal amount outstanding at any time of up to \$30,000,000 ("Advances") to finance FFELP Loans which are guaranteed by KHEAA or by any other guaranty agency approved by SLMA. There are currently outstanding \$20,000,000 of Advances which constitute limited obligations of the Corporation payable from specific revenues and assets pledged therefor pursuant to a Forward Financing Agreement Note Resolution. The Corporation may, but is not required to, apply a portion of the proceeds of the 1997 Bonds to repay all or a portion of the Advances which are then outstanding, upon which application all FFELP Loans released from the lien of such Advances would be credited to the Loan Account established under the General Bond Resolution.

Neither the Insured Student Loan Revenue Bonds nor the Advances are payable from the Loans or other assets included in the Trust Estate established under the General Bond Resolution. No education loan or other asset pledged under the 1983 Resolution to secure Insured Student Loan Revenue Bonds issued thereunder, or under the Forward Financing Agreement Note Resolution to secure Advances is pledged to secure or expected to be available to fund payment of the 1997 Bonds.

The Corporation currently expects to issue approximately \$4,910,000 of Insured Student Loan Revenue Bonds for refunding purposes during the current calendar year and reserves the right: (i) to issue additional Insured Student Loan Revenue Bonds and to effect additional Advances to finance and refinance FFELP Loans; (ii) to enter into financing agreements which are secured on a basis separate and apart from the 1997 Bonds, the Insured Student Loan Revenue Bonds and the Advances in connection with its Education Finance Program; (iii) to finance education loans which are newly originated or acquired by the Corporation pursuant to any financing arrangement under which funds are available therefor; and (iv) to effect the release of education loans from the lien of any financing arrangement, including the General Bond Resolution, in accordance with the terms thereof through application of amounts available therefor pursuant to any financing arrangement, including the General Bond Resolution.

Availability of Student Loans. The Corporation expects to apply all proceeds of the 1997 Bonds which are to be initially deposited in the Loan Account to refinance FFELP Loans securing Advances or to fund the origination and acquisition of FFELP Loans prior to June 30, 1998. The aggregate amount of projected Corporation purchase commitments pursuant to existing contractual obligations during this period exceeds \$75,000,000. See "USE OF PROCEEDS". The General Bond Resolution permits the periodic transfer from the Revenue Account to the Loan Account of Revenues in excess of required Revenue Account applications. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS -- The General Bond Resolution -- *Revenue Account*".

The Federal Family Education Loan Program is currently fully authorized under the Higher Education Act through September 30, 1998. The 1993 amendments to the Higher Education Act authorized the replacement of a minimum of 60% of FFELP Loan volume with direct federal lending by 1998. Implementation of direct federal lending may result in an increasing reduction in the volume of FFELP Loans. The federal direct lending program also authorized the Secretary to offer borrowers consolidation loans with income contingent terms if such borrowers are unable to obtain loans with income sensitive repayment terms from any other lender. The number or the dollar volume of FFELP Loans originated, acquired or held by the Corporation or guaranteed by KHEAA may decrease as a result of such implementation and such a decrease may not be proportionate to the percentage by which such implementation reduces the number or the dollar volume of FFELP Loans nationally. Moreover, replacement of FFELP Loans by direct federal lending or some other federal program might affect the availability of FFELP Loans for purchase by the Corporation. While authorization of the Federal Family Education Loan Program and its predecessors has been repeatedly extended, there can be no assurance as to the likelihood of further extension or of any change in present federal policy relative to the financing of post-secondary education. The Corporation does not expect, however, the development of federal policy to have a material adverse effect upon its ability to pay Debt

Service on its Bonds in a timely fashion or to discharge its obligations under the Resolutions. See Appendix A -- "DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM -- Federal Direct Student Loan Program".

Servicing of FFELP Loans and FDSL P Loans. The Corporation currently expects to service all Student Loans held under the Resolutions. It currently services approximately \$300 million outstanding principal amount of FFELP Loans which are pledged to secure Insured Student Loan Revenue Bonds or Advances and approximately \$85 million of FFELP Loans on behalf of other eligible lenders pursuant to servicing agreements, including servicing agreements which provide for the acquisition by the Corporation of the FFELP Loans serviced. In addition, the Corporation services FFELP Loans and certain other federal program education loans on a contractual basis. The Corporation's servicing obligations pursuant to such servicing agreements are without recourse to assets pledged to secure any Corporation financings, including the Trust Estate established under the General Bond Resolution to secure the 1997 Bonds. The Corporation currently subcontracts certain FFELP Loan servicing functions. The Corporation deposits all FFELP Loan payments upon receipt into clearing accounts with financial institutions and periodically transfers payments from such clearing accounts to the applicable fiduciary or eligible lender.

The Corporation currently services its FFELP Loans utilizing software purchased from IFA Systems, a division of Idaho Financial Associates, Inc., which has been in the student loan business for over 10 years. The Corporation has entered into an agreement with IFA Systems pursuant to which IFA has agreed to provide, from time-to-time, program changes in order to assure that the Corporation is able to comply with changes in provisions of the Higher Education Act. IFA Systems also makes certain other changes requested by the Corporation in its role as servicer for various types of loans.

The Higher Education Act requires that the Corporation and its agents and employees exercise "due diligence" in the servicing and collection of FFELP Loans. The Higher Education Act defines "due diligence" to require the holders of a FFELP Loan to utilize collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. Federal regulations prescribe a series of actions that must be taken by a lender in the collection of delinquent (past due) FFELP Loans. Additionally, those regulations set forth specific requirements that a lender or holder of FFELP Loans must meet to constitute due diligence in the making, disbursing, and servicing of FFELP Loans. Failure to exercise such reasonable care and diligence may result in the disqualification of an "eligible lender" (which could include the Corporation as a holder of FFELP Loans) from further federal insurance payments on affected loans if the applicable guaranty agency determines that the foregoing standards have not been met. The Corporation or a lender may not relieve itself of its responsibility for meeting these standards by delegation to any servicing agent and, accordingly, if any third party servicer of the Corporation's FFELP Loans fails to meet such standards, the Corporation's ability to realize the benefits of the guaranty agency's insurance payments may be adversely affected.

The Higher Education Act requires that a guaranty agency ensure that due diligence be exercised by lenders in making, servicing and collecting FFELP Loans guaranteed by the guaranty agency. Each guaranty agency must establish procedures and standards for due diligence which are consistent with federal standards. If the Corporation or any third party servicer of the Corporation's FFELP Loans does not comply with the due diligence standards established by the Higher Education Act and federal regulations, then the Corporation's ability to realize the benefits of guarantee payments and the guaranty agency's ability to realize the benefits of federal reinsurance payments may be adversely affected.

The Corporation retains the right to provide for administration of its Education Finance Program in the most economically efficient manner, subject to its contractual obligations in connection with financings. The Corporation has reserved the right to implement interest rate discounts or other borrower benefits, which may have the effect of reducing loan yield with respect to student loans, provided that the Corporation obtains a Rating Affirmation.

In addition to servicing FFELP Loans, the Corporation has entered into an agreement to perform certain loan servicing component functions in connection with the Federal Direct Student Loan Program. The Corporation expects to establish a separate group which would be dedicated to the performance of these FDSLPL Loan functions, and to hire additional personnel and obtain additional facilities in connection with the FDSLPL Loan activities. See Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

Prior to an Event of Default, the Trustee has no duties or obligations to service or collect or monitor the servicing and collecting of Student Loans by the Corporation as servicer or any other subservicer. Nor shall the Trustee be responsible for accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency or the insurance of the Secretary on the Student Loans.

Prior to an Event of Default, the Corporation, and not the Trustee, is the custodian of the Student Loan Notes. The Trustee shall have no responsibility for loss of or damage to the Student Loan Notes held by the Corporation as the custodian or by its agents. The Corporation as custodian, and not the Trustee, is responsible for reviewing and servicing, respectively, each Student Loan and safekeeping and preserving it. The Trustee shall have no responsibility or liability for examination, safekeeping, preserving, or servicing of the Student Loans.

The Trustee may have certain duties relating to the foregoing matters specified in the preceding two paragraphs upon the occurrence of an Event of Default, as provided in the General Bond Resolution.

GUARANTY AGENCIES

General

The Resolutions permit the application of amounts credited to the Loan Account to finance FFELP Loans which are guaranteed or insured: (i) by KHEAA; (ii) by any other guaranty agency under the Higher Education Act, subject to receipt of a Rating Affirmation; and (iii) by any successor to the obligations of any such entity. The Corporation expects to apply all 1997 Bond proceeds to be initially deposited in the Loan Account to finance FFELP Loans which are guaranteed by KHEAA, but reserves the right to apply amounts credited to the Loan Account to finance other education loans in compliance with the Resolutions.

The Kentucky Higher Education Assistance Authority

The Kentucky Higher Education Assistance Authority is a public corporation and governmental agency and instrumentality of the Commonwealth established in 1966 to serve the public purpose of improving opportunities for higher education by insuring student loans for students eligible under the Higher Education Act; providing loans, grants, and scholarship awards to qualified Kentucky students; and offering information relating to KHEAA programs to Kentucky residents. The powers of KHEAA with respect to insuring student loans include: (i) providing loan insurance within the limitations of Kentucky law and the Higher Education Act, the loan in each case to be subject to agreements providing for interest payments, reimbursements, reinsurance and other benefits to the extent provided by the Higher Education Act; (ii) entering into agreements and undertakings with the Secretary in order to constitute KHEAA as a state agency qualified to insure student loans under the Higher Education Act and to qualify such student loans for interest subsidies, reimbursement, reinsurance, and other benefits available under the Higher Education Act; (iii) entering into contracts with eligible lenders and eligible education institutions to provide for the administration of student financial assistance programs; (iv) collecting from the borrower amounts due under a student loan on which KHEAA has fulfilled its insurance obligations following the inability of the holders to collect such loan; (v) approving, limiting, suspending, or terminating the eligibility of educational institutions or lenders to participate in KHEAA's Loan Guarantee Program, subject to the provisions of the Higher Education Act and applicable Kentucky law; (vi) if any conflict exists between applicable State law and the Higher Education Act that would result in a loss by KHEAA of federal funds, adopting rules, regulations, and policies consistent with the Higher Education Act, but which are not in derogation of the Constitution and general laws of the Commonwealth;

(vii) administering federal funds allotted to the Commonwealth in respect of student loans, administrative costs, and other matters; and (viii) receiving funds and acquiring property from any source, public or private, except that KHEAA has no power to make its debts payable out of any funds other than those of KHEAA.

In addition to its student loan guarantee functions, KHEAA offers origination services to lenders, administers two state Grant Programs, one teacher incentive loan program, and the state work-study program in order to provide financial assistance to eligible students. Such programs are partially funded by the Commonwealth of Kentucky supplemented by federal funds. Pursuant to Executive Order 90-433 (ratified by the Kentucky General Assembly, 1992 Acts, C.190, §12) responsibilities for the Kentucky Education Savings Plan Trust (Trust) were transferred to KHEAA effective May 10, 1990. The Trust offers opportunities for families to save for future college costs. Trust funds are fully segregated from all other funds managed by KHEAA.

KHEAA is governed by its Board of Directors, which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of seven voting members appointed by the Governor of the Commonwealth for terms of four years each and the Executive Director of the Council on Higher Education of the Commonwealth and the Secretary of the Finance and Administration Cabinet of the Commonwealth, each of whom serve as non-voting, *ex officio* members.

The Executive Director of KHEAA is Paul P. Borden; the Chief Operating Officer is Londa L. Wolanin. KHEAA's office is located at 1050 U.S. 127 South, Suite 102, Frankfort, Kentucky 40601, telephone number (502) 564-7990.

KHEAA's Loan Guarantee Program. In November 1978 KHEAA commenced guaranteeing student loans as the state guarantee agency of the Commonwealth under Section 428(c) of the Higher Education Act and in accordance with Kentucky law and KHEAA's agreements with the Secretary.

Pursuant to KHEAA's Loan Guarantee Program, any eligible holder of a loan guaranteed by KHEAA is entitled to reimbursement from KHEAA to the maximum extent permitted by the Higher Education Act for any proven loss incurred resulting from the default, death, permanent and total disability, or discharge in bankruptcy of the borrower and with respect to certain other claims. At the time KHEAA pays a claim for reimbursement of a defaulted loan, the holder must assign to KHEAA all rights accruing to the holder under the note.

On April 18, 1995, an agreement between the Alabama Commission on Higher Education (ACHE) and KHEAA was approved by the U.S. Department of Education for the transition of the Alabama Guaranteed Student Loan Program to KHEAA. KHEAA began to guarantee FFELP Loans for lenders and students in the state of Alabama on June 2, 1995. KHEAA has been designated by the U. S. Department of Education as the guarantor for Alabama effective July 1, 1996.

Loan Insurance Fund. Pursuant to Kentucky Revised Statutes Sections 164.740 through 164.785, KHEAA has established a Loan Insurance Fund which is used to account for all loan guarantee functions.

Sources of funds for the Loan Insurance Fund are insurance premiums for loans guaranteed, administrative expense allowance from the Secretary, reinsurance from the Secretary for default and other claims paid, default collections, and investment income derived from such funds; uses of funds are default and other claims on loans guaranteed, and operating expenses for loan guarantee functions.

Pursuant to Kentucky Revised Statutes, Sections 164.740 to 164.785, as amended, KHEAA is authorized to issue loan guarantees to eligible lenders on any loans to qualified students, provided that no additional loans may be guaranteed if the total amount of all outstanding student loans guaranteed by KHEAA exceeds seventy-five times the funds available in the Loan Insurance Fund. Funds available in the Loan Insurance Fund are calculated on the basis of the net assets before deducting unearned insurance premiums, which equals the fund balance plus unearned

insurance premiums. Funds available in the Loan Insurance Fund are restricted by federal regulations and the Higher Education Act.

Outstanding loan guarantee commitments by ACHE, on which no claims have been filed or paid, were transferred to KHEAA on December 31, 1995. Accounts held by ACHE on which default claims were paid prior to April 15, 1993, that remain in active repayment status and accounts held by ACHE on which default claims were paid after April 15, 1993, were transferred to KHEAA prior to June 30, 1996. Following the transfer of defaulted accounts, remaining Alabama federal reserve funds will be transferred to KHEAA.

The following table summarizes the student loans guaranteed by KHEAA (and reinsured by the Secretary) annually, the aggregate outstanding guarantee commitment for the periods indicated and KHEAA's Claims Rate to the Secretary for defaulted student loans. The Coverage Ratio set forth below is determined by dividing the funds available in the Loan Insurance Fund by the principal amount of the aggregate outstanding guarantee commitment.

Fiscal Year Ended June 30	Annual Principal Amount of Loans Guaranteed	Aggregate Principal Guarantee Commitment	Coverage Ratio	Claims Rate
1992	\$114,122,320	\$500,404,653	3.54%	3.87%
1993	131,206,838	556,234,650	3.74	3.97
1994	187,999,654	667,407,110	3.76	4.07
1995	251,724,866	847,996,181	3.33	4.28
1996	\$258,667,310	\$1,584,863,271	2.54	4.79

No Pledge of KHEAA's Funds and Assets. The funds and assets of KHEAA are not pledged to or available for payment of the Bonds.

CONTINUING DISCLOSURE

General

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Corporation will enter into separate continuing disclosure undertakings (each a "Continuing Disclosure Agreement") with the Trustee for each of the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds which shall constitute a written undertaking for the benefit of the respective owners of such Bonds, solely to assist the Underwriter in complying with subsection (b) (5) of the Rule.

The Corporation will agree in each Continuing Disclosure Agreement to provide to the Trustee, which shall provide within 5 Business Days after receipt thereof, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of subsection (b) (5) of the Rule (each, a "Repository"), annual financial information and operating data (the "Annual Financial Information") relating to it and any Additional Obligated Persons (defined below) covering the matters described under "Annual Financial Information" below. The Corporation will also agree to provide to each Repository, in a timely manner, notice of any of the events ("Event Notice") if determined by the Corporation to be material, as described under "Event Notices" below.

The Corporation has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide Annual Financial Information or notices of material events. The on-going disclosure obligations of the Corporation shall terminate upon the full payment, prior redemption or legal defeasance of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, or with respect to any Additional Obligated Person, at the time that the party no longer meets the definition of Additional Obligated Person.

The Corporation may appoint or engage a dissemination agent to assist in carrying out its obligations under the Continuing Disclosure Agreements.

The Corporation may amend each Continuing Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the respective owners of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable (except to the extent required under clause (4)(ii) below) if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Corporation or any Additional Obligated Person or the type of business conducted thereby; (2) the applicable Continuing Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of such Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, or (ii) the holders of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, consent to the amendment to the applicable Continuing Disclosure Agreement pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, pursuant to the terms of the Resolutions as in effect on the date of such Continuing Disclosure Agreement; and (5) the Corporation shall have delivered copies of such opinion and amendment to each Repository.

In the event of default by the Corporation of its obligations under any Continuing Disclosure Agreement to provide continuing disclosure, the beneficial owners of the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, and the Trustee on behalf of such owners may take action to compel compliance, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Corporation's obligations under the applicable Continuing Disclosure Agreement. No such default under either Continuing Disclosure Agreement shall constitute an Event of Default under the Resolutions.

Annual Financial Information

The Corporation will provide Annual Financial Information for the Corporation and any Additional Obligated Person within 270 days of the end of such party's fiscal year (the "Reporting Date"), beginning with the fiscal year in each case ending on or after January 1, 1997. Such Annual Financial Information shall consist of the following information:

(I) Annual audited financial statements for the Corporation and for any Additional Obligated Person prepared in accordance with generally accepted accounting principles.

(II) An update of the tabular information presented under the heading "THE CORPORATION" or the heading "GUARANTY AGENCIES" in this Official Statement.

If the audited financial statements for the Corporation or the Additional Obligated Person, as the case may be, are not available by the Reporting Date, unaudited financial statements of the Corporation or an Additional Obligated Person, as the case may be, are to be provided as part of the applicable Annual Financial Information and audited financial statements for the Corporation or an Additional Obligated Person, as the case may be, when and if available, will be provided to the Trustee and each Repository. If the fiscal year of the Corporation or an Additional Obligated Person, as the case may be, changes, the Corporation or an Additional Obligated Person, as the case may be, shall give notice of such change in the same manner and time as an Event Notice.

Event Notice

In addition to the Annual Financial Information described above, the Corporation will also agree to provide an Event Notice upon the happening of and with respect to any of the following events, if material, with respect to the applicable Series of 1997 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events adversely affecting the tax exempt status of the Subordinate Series 1997-B Bonds.
- (7) Modifications to rights of owners of the applicable Series of 1997 Bonds;
- (8) Calls of the applicable Series of 1997 Bonds;
- (9) Defeasances;
- (10) Release, substitution or sale of assets securing repayment of the applicable Series of 1997 Bonds; and
- (11) Rating changes.

DEFINITIONS

"Additional Obligated Person" means, prior to receipt by the Trustee of a Negative Opinion or the issuance of a written interpretation by the Staff of the Securities and Exchange Commission, any Guarantor that is guaranteeing student loans having an aggregate principal amount of at least 20% of the aggregate principal amount of all Student Loans.

"Negative Opinion" means an opinion with respect to a person or entity that is issued by a nationally recognized bond counsel firm or counsel expert in federal securities laws, which counsel and opinion are in form and substance acceptable to the Corporation, to the effect that such person or entity does not constitute an "obligated person" with respect to the Senior Series 1997-A Bonds or the Subordinate Series 1997-B Bonds, as applicable, within the meaning of the Rule.

"Repository"

The following shall mean for the purposes of the continuing disclosure required under each Continuing Disclosure Agreement:

Bloomberg Financial Reports
Attn: Municipal Department
P.O. Box 840
Princeton, NJ 08542-0840
E-Mail Address: MUNIS@bloomberg.com
Internet Address: <http://www.bloomberg.com>
Telephone: (609) 279-3200
Fax: (609) 279-5962

R.R. Donnelley Financial
Municipal Securities Disclosure Archive
Attn: MSDA Information Officer
559 Main Street
Hudson, MA 01749
E-Mail Address: sspotkill@RRDfin.com
Internet Address: <http://www.municipal.com>
Telephone: (800) 580-3670
Fax: (508) 562-1969

Thomson Municipal Services
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
E-Mail Address: Disclosure@muller.com
Telephone: (800) 689-8966
Fax: (212) 989-2078

Kenny Information Systems, Inc.
Attn: Kenny Repository Service
65 Broadway, 16th Floor
New York, New York 10006
Internet Address: <http://www.bluelist.com>
Telephone: (212) 770-4595
Fax: (212) 797-794

Disclosure Inc.
Attn: Document Acquisitions, Municipal
Securities
5161 River Road
Bethesda, MD 20816
Internet Address: <http://www.disclosure.com>
Telephone: (301) 951-1450
Fax: (301) 718-2329

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, New York 10007
E-Mail Address: NRMSIR@moodys.com
Telephone: (800) 339-6306
Fax: (212) 553-4720

TAX MATTERS

Federal Taxation Generally

Certain Federal Tax Information with respect to Senior Series 1997-A Bonds. In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Senior Series 1997-A Bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). The following is a discussion of certain United States federal income and withholding tax matters under existing statutes applicable with respect to the Senior Series 1997-A Bonds. It does not purport to deal with all aspects of federal taxation that may be relevant to particular bondowners or beneficial owners.

Interest payments made with respect to Senior Series 1997-A Bonds held by a nonresident alien individual, foreign corporation, or other non-United States person ("foreign person") generally will not be subject to United States withholding tax so long as the withholding agent receives a qualifying statement from the beneficial owner of the Senior Series 1997-A Bonds or from an organization described in Section 871(b)(5)(B) of the Code that the beneficial owner is a foreign person. If, however, a particular beneficial owner who is a foreign person is subject to United States withholding tax, for example in the event such person fails to provide the required statement, then interest payments made with respect to that person's Senior Series 1997-A Bonds generally would be subject to United States withholding tax at the rate of 30%. The 30% rate may be reduced or eliminated under a bilateral income tax treaty between the United States and the country of the beneficial owner, where the withholding agent has been provided the required certificate. United States withholding tax will not apply (although United States federal income tax may be due with respect to the interest received) if the interest is effectively connected with the foreign person's conduct of a trade or business within the United States and the withholding agent has received the required certificate.

The Code requires the payor of interest on the Senior Series 1997-A Bonds to provide information to the Internal Revenue Service with respect to such payments. Such amounts will ordinarily not be subject to United States withholding tax. However, withholding at a rate of 31% may be required by reason of the events specified by Section 3406 of the Code and regulations promulgated thereunder, which include failure of the payee to furnish the payee's correct taxpayer identification number or issuance of notification by the Internal Revenue Service that such amounts are subject to withholding because of under reporting of interest or dividend income by the payee.

Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Senior Series 1997-A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Certain Federal Tax Information with respect to Subordinate Series 1997-B Bonds. On the date of delivery of the Subordinate Series 1997-B Bonds, the Corporation and the Trustee will execute an agreement (the "Tax Regulatory Agreement") wherein the Corporation will covenant that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Subordinate Series 1997-B Bonds will not be included in gross income under Section 103 of the Code. Assuming the Corporation complies with the provisions and procedures set forth in the Tax Regulatory Agreement, in the opinion of Hawkins, Delafield & Wood, Bond Counsel, interest on the Subordinate Series 1997-B Bonds is not included in gross income for federal income tax purposes pursuant to the Code, under existing statutes and court decisions.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Subordinate Series 1997-B Bonds in order that interest on the Subordinate Series 1997-B Bonds be and remain not includable in gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use, investment and expenditure of bond proceeds and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on such obligations to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such compliance is ascertained. The Tax Regulatory Agreement will contain provisions and procedures pursuant to which such requirements can be satisfied.

The Code imposes an alternative minimum tax ("AMT") with respect to individuals and corporations on AMT income. **The interest on the Subordinate Series 1997-B Bonds is a specific preference item for purposes of the AMT for both corporations and individuals.**

The Code also imposes a tax on excess net passive income of certain S Corporations that have subchapter C earnings and profits. Passive investment income includes interest on tax-exempt obligations. In addition, such interest is includable in the computation of the foreign branch profits tax that may be imposed on corporations.

The Code further provides that interest on the Subordinate Series 1997-B Bonds is includable in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement payments are to be included in taxable income of individuals. Moreover, the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations such as the Subordinate Series 1997-B Bonds. For taxable years beginning after December 31, 1995, taxpayers who are otherwise eligible for the earned income credit may be denied such credit if they earn disqualified income, including interest on the Subordinate Series 1997-B Bonds.

Bondholders should consult their tax advisors with respect to the calculation of AMT, foreign branch profits tax liability, the taxation of net passive income of S Corporations, the deductibility of interest on obligations incurred or continued to purchase or carry the Subordinate Series 1997-B Bonds, the eligibility of a taxpayer for the earned income credit or the inclusion of Social Security or other retirement payments in taxable income.

The following provisions of the Code should also be noted: (a) with respect to property and casualty insurance companies for taxable years beginning after 1986, deductible underwriting losses would be reduced (in certain cases below zero) by a percentage of the interest received on tax-exempt obligations acquired after August 7, 1986; and (b) subject to certain limited exceptions, no deduction would be allowed a financial institution for taxable years ending after 1986 for that portion of the institution's interest expense that is allocable to debt incurred or continued to purchase or carry tax-exempt obligations acquired after August 7, 1986.

Tax and budgetary legislation affecting municipal bonds, such as the 1997 Bonds, is constantly being considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 1997 Bonds will not have an adverse effect on the tax exempt status or market price of the 1997 Bonds.

State Taxation

Hawkins, Delafield & Wood, Bond Counsel, is also of the opinion that under existing statutes, Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds, the income thereon, and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the State.

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the 1997 Bonds in the Commonwealth, are securities in which all public officers and public bodies of the Commonwealth, political subdivisions thereof, insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital, in their control or belonging to them.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature pending or threatened to restrain or enjoin issuance, sale, execution or delivery of the 1997 Bonds, or in any way contesting or affecting the validity of the 1997 Bonds, any proceedings of the Corporation taken with respect to the issuance of sale thereof; and as of the date hereof, there is no litigation pending or threatened, which would materially adversely affect the pledge or application of any moneys or security provided for the payment of the 1997 Bonds or the powers of the Corporation.

APPROVAL OF LEGALITY

Certain legal matters in connection with the 1997 Bonds are to be passed upon by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters are to be passed upon for the Underwriter by its counsel, Krieg DeVault Alexander & Capehart, Indianapolis, Indiana. The unqualified approving opinion of Bond Counsel to the Corporation shall accompany each of the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds substantially in the respective form attached to this Official Statement as Appendix D.

UNDERWRITING

The 1997 Bonds are to be purchased by the Underwriter. The Underwriter is to purchase the Senior Series 1997-A Bonds at a purchase price of \$89,995,907 and is to purchase the Subordinate Series 1997-B Bonds at a purchase price of \$44,326,343.

APPROVAL OF ISSUANCE OF THE 1997 BONDS

Issuance of the 1997 Bonds by the Corporation was approved by the Governor of the Commonwealth. The Corporation expects the issuance of the 1997 Bonds to receive all necessary state approvals.

FINANCIAL STATEMENTS AND INFORMATION REGARDING THE CORPORATION

The Corporation's financial statements for the fiscal year ended June 30, 1996 were audited by Coopers & Lybrand, L.L.P., as set forth in their report dated September 25, 1996. Such financial statements and auditor's report are included as Appendix D hereto. Such financial statements represent the most current audited financial information available for the Corporation.

Since the 1997 Bonds are special and limited obligations of the Corporation, payable solely from the Trust Estate pledged under the Resolution, the overall financial status of the Corporation does not indicate and does not necessarily affect whether such revenues and other amounts will be available under the Resolution to pay the principal of and interest on the 1997 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 1997 Bonds from any moneys legally available to the Corporation for its general purposes other than those expressly pledged.

MISCELLANEOUS

The information set forth in this Official Statement relating to the Corporation and KHEAA was obtained from the records of the Corporation and the Authority and from other sources considered reliable.

All quotations from, and summaries and explanations of, the Higher Education Act, the Act, the State Guarantee Act and the Resolutions contained herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are part of this Official Statement. Copies of the Act and the Resolutions may be obtained upon written request directed to the Corporation, P.O. Box 24266, Louisville, Kentucky 40224-0266.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any Bonds.

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

By: /s/Paul P. Borden

Paul P. Borden,
Executive Director and
Chief Executive Officer

May 9, 1997

Appendix A

Summary of Certain Provisions of the Federal Family Education Loan Program

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

The Higher Education Act provides for a program (the "Federal Family Education Loan Program", the "FFEL Program," or the "Program") of loans to students and parents of dependent students, which loans are: (i) guaranteed by a state agency or private non-profit corporation and reinsured by the federal government; or (ii) directly insured by the federal government. Several types of Federal Family Education Loans are currently authorized under the Program: (i) fully subsidized loans to students who demonstrate need on the basis of certain tests, presently known as Federal Stafford Loans ("Subsidized Stafford Loans"); (ii) generally similar loans, with respect to the full amount borrowed to students who do not pass such need tests, known as Federal Unsubsidized Stafford Loans ("Unsubsidized Stafford Loans" and, collectively with Subsidized Stafford Loans, "Stafford Loans"); (iii) loans to parents of students who are dependents and whose need exceeds the available Stafford Loans, presently known as Federal PLUS Loans ("PLUS Loans"); and (iv) loans to consolidate the borrower's obligations under various federally authorized student loan programs into a single loan, presently known as Federal Consolidation Loans ("Consolidation Loans"). Prior to July 1, 1994, the Program also included a separate type of loan to graduate and professional students and, under certain circumstances, dependent undergraduate students, to supplement their Stafford Loans ("Supplemental Loans to Students" or "SLS Loans"). The principal federal benefits which the Federal Family Education Loan Program provides to holders of loans originated thereunder are: (i) federal insurance by the federal Department of Education (the "Department") or federal reinsurance by the Department of guarantees provided by guaranty agencies; (ii) federal interest subsidy payments to holders of certain loans in lieu of borrower payments during certain periods defined by borrower status ("Interest Subsidy Payments"); and (iii) federal special allowance payments to holders of certain loans during certain periods defined by interest rate levels ("Special Allowance Payments"). See "Federal Budgetary Constraints" below.

This summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Higher Education Act and the regulations thereunder.

Legislative and Administrative Matters

Both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments in recent years and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. Recent legislation substantially affecting the Program includes: the Balanced Budget and Deficit Reduction Act of 1985 (the "1985 Budget Act"); the Higher Education Amendments of 1986 (the "1986 Amendments"); the Omnibus Budget Reconciliation Act of 1990 (the "1990 Budget Act"); the Higher Education Amendments of 1992 (the "1992 Amendments"); the Student Loan Reform Act of 1993 (the "1993 Amendments"); and the Higher Education Technical Amendments Act of 1993 (the "1993 Technical Amendments").

Disbursement of Federal Family Education Loans pursuant to the Program is currently authorized to September 30, 1998 (or, in the case of borrowers who have received loans prior to that date, to September 30, 2002, except that authority to make Consolidation Loans under the Program expires on September 30, 1998).

Eligible Borrowers and Institutions

Loans under the Federal Family Education Loan Program may only be made to Qualified Students and parents of dependent Qualified Students or to consolidate obligations under various federally authorized student loan programs. A "Qualified Student" is generally defined as a United States citizen or national or otherwise eligible individual under federal regulations who: (i) has been accepted for enrollment or is enrolled and is maintaining

satisfactory progress at an eligible institution; (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) has agreed to notify promptly the holder of the Program loan of any address change or certain changes in status; and (iv) meets the application "need" requirements, if applicable, for the particular loan program. Each loan is to be evidenced by an unsecured promissory note.

Eligible institutions include institutions of higher education and proprietary institutions of higher education. Eligible institutions of higher education must meet certain standards, which generally provide that the institution: (i) only admits persons who have a high school diploma or its equivalent; (ii) is legally authorized to operate within the State; (iii) provides not less than a two-year program with credit acceptable toward a bachelor's degree; (iv) is a public or non-profit institution; and (v) is accredited by a nationally recognized accrediting agency or is determined by the Secretary of the Department (the "Secretary") to meet the standards of an accredited institution. Eligible proprietary institutions of higher education include business, trade and vocational schools meeting standards which provide that the institution: (i) only admits persons that have a high school diploma or its equivalent, or persons who are beyond the age of compulsory school attendance and have the ability to benefit from the training offered (as defined by statute and regulation); (ii) is authorized by the State to provide a program of vocational education designed to fit individuals for useful employment in recognized occupations; (iii) has been in existence for at least two years; and (iv) is accredited by a nationally recognized accrediting agency or is specially accredited by the Secretary. With certain exceptions, an institution with a cohort default rate that is higher over a period of time than the specified thresholds in the Higher Education Act is not an eligible institution. An institution's cohort default rate is generally based on the percentage of its current and former students who default on their Stafford Loans or SLS Loans within a specified period of time after entering repayment. The general threshold for such disqualification was established by the 1990 Budget Act at 35%, or 30% of SLS Loans, and was reduced by the 1992 Amendments to 25%.

With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution: (i) offers more than 50% of its courses by correspondence; (ii) enrolls 50% or more of its students in correspondence courses; (iii) has a student enrollment in which more than 25% of the students are incarcerated; or (iv) has a student enrollment in which more than 50% of the students are admitted without a high school diploma or its equivalent on the basis of their ability to benefit from the education provided (as defined by statute and regulation). Further, institutions are specifically excluded from participation if: (i) the institution has filed for bankruptcy; or (ii) the owner, or its chief executive officer, has been convicted or pled *nolo contendere* or guilty to a crime involving the acquisition, use or expenditure of federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program. In order to participate in the program, the eligibility of an institution must be approved by the Department under standards established by regulation.

Financial Need Analysis

Loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses (as determined by the institution). Each Stafford Loan borrower must undergo a need analysis, which requires the borrower to submit a need analysis form to a multiple data entry processor, which forwards the information to the federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family must contribute towards the student's cost of education (the "Family Contribution"). After receiving information on the family contribution, the institution then subtracts the Family Contribution from its costs of attendance to determine the student's eligibility for grants, loans, and work assistance. The difference between the amount of grants and Subsidized Stafford Loans for which the borrower is eligible and the student's estimated costs of attendance (the "Unmet Need") may be borrowed through Unsubsidized Stafford Loans, subject to certain loan limits. Parents may finance the Family Contribution amount through their own resources or through PLUS Loans. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan funding have been the subject of frequent and extensive amendments in recent years. There

can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

Stafford Loans Generally

Interest. Stafford Loans bear interest at a rate not in excess of 7% per annum if made to a borrower to cover costs of instruction for any period beginning prior to January 1, 1981, or if a subsequent Stafford Loan is made to such a borrower. Stafford Loans made to new borrowers for periods of instruction on or after January 1, 1981, and before September 13, 1983, and subsequent Stafford Loans to such borrowers, bear interest at a rate of 9% per annum. Stafford Loans made to new borrowers for periods of enrollment beginning on or after September 13, 1983, and subsequent Stafford Loans to such borrowers, bear interest at a rate of 8% per annum. Stafford Loans made to new borrowers for periods of enrollment beginning on or after July 1, 1988 (but prior to October 1, 1992) pursuant to Section 427A of the Higher Education Act ("427A Loans") bear interest at rates of 8% per annum from disbursement through four years after repayment commences and 10% per annum thereafter, subject to a provision requiring annual discharge of principal to the extent that quarterly interest calculated at the 10% per annum rate exceeds the amount that would result from application of the average bond equivalent rate of 91-Day Treasury bills (the "91-Day T-Bill Rate") auctioned for such quarter, plus 3.25% ("Excess Interest"). No principal is discharged if the borrower is delinquent for more than 30 days on a loan payment at the end of the calendar year. For new 427A Loans made to all existing borrowers after July 23, 1992, and for 427A Loans made to all new borrowers after July 23, 1992, but prior to October 1, 1992, the provision that requires annual discharge of principal is effective immediately instead of after four years, the rate with which the quarterly calculation of interest is compared is the 91-Day T-Bill Rate plus 3.10% and any excess with respect to a loan for a period during which the Secretary is making Interest Subsidy Payments must be credited to the Secretary. Stafford Loans first disbursed to new borrowers on or after October 1, 1992, and subsequent Stafford Loans to such borrowers, bear interest at a variable rate, equal to the bond equivalent rate of 91-Day Treasury bills auctioned at the final auction held prior to June 1 of each year, plus 3.10%, subject to a maximum rate of 9% per annum.

Notwithstanding the foregoing, holders are required under the 1993 Technical Amendments to convert all 427A Loans eligible for excess interest rebate to a variable rate equal to the 91-Day T-Bill Rate plus 3.25% or, in the case of a loan made to a borrower with outstanding Program Loans after October 1, 1993, the 91-day T-Bill Rate plus 3.1%, such conversion to take place before January 1, 1995. The converted loans will not thereafter be subject to the annual discharge requirements.

The interest rate on Stafford Loans first disbursed on or after July 1, 1994, for periods of enrollment beginning after or including that date, will be the 91-Day T-Bill Rate plus 3.1%, not to exceed 8.25%. The interest rate on Stafford Loans first disbursed on or after July 1, 1995, for periods of enrollment beginning after or including that date, prior to repayment and during any grace period or deferment period will be the 91-Day T-Bill Rate plus 2.5%, not to exceed 8.25%. The interest rate on Stafford Loans first disbursed on or after July 1, 1998, for periods of enrollment beginning after or including that date, will be the bond equivalent rate of the security with a comparable maturity as established by the Secretary plus 1.0%, not to exceed 8.25%.

Loan Limits. The Higher Education Act requires that loans made to cover enrollment periods longer than six months be disbursed in at least two separate disbursements. From January 1, 1987, through September 30, 1993, undergraduates were able to borrow up to \$2,625 annually through the completion of the second year of instruction and, prior to July 1, 1993, \$4,000 annually through the remainder of undergraduate study pursuant to Stafford Loans. Stafford Loans for which the first disbursement was made prior to July 1, 1993 are subject to an aggregate limit of \$17,250 for undergraduate study, while graduate or professional students, who may borrow up to \$7,500 annually, are subject to an aggregate limit of \$54,750, inclusive of loans for undergraduate study. The annual loan limit for undergraduate loans first disbursed on or after July 1, 1993 is dependent on the class year of the borrower and the length of the academic year, and ranges from a minimum of \$2,625 for first year undergraduate borrowers to a maximum annual limit of \$5,500 for undergraduate borrowers. The annual loan limit for graduate and professional loans for periods of enrollment beginning on or after October 1, 1993 is \$8,500. Loans for which the first

disbursement is made on or after July 1, 1993, are subject to an aggregate limit of \$23,000 for undergraduate students and an aggregate limit of \$65,500 for graduate or professional students, excluding PLUS Loans and SLS Loans. Notwithstanding the foregoing limits, however, additional Unsubsidized Stafford Loans are currently available to independent, and to certain dependent, undergraduate students, in annual amounts up to \$5,000, and to graduate and professional students, in annual amounts up to \$10,000, subject to overall limits on any borrower's aggregate outstanding Stafford Loans, Unsubsidized Stafford Loans, analogous loans made under the Federal Direct Student Loan Program and SLS Loans of \$46,000, for undergraduate students, and of \$138,500, for graduate or professional students. The Secretary has discretion to raise these limits to accommodate highly specialized or exceptionally expensive courses of study.

Repayment. Generally, repayment of principal on a Stafford Loan does not commence while a student remains a Qualified Student, but begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. In general, each loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments. The Higher Education Act currently authorizes the Secretary to promulgate regulations, effective July 1, 1993, that require lenders to offer graduated or income-sensitive repayment schedules to all borrowers.

Grace Periods, Deferment Periods, Forbearance Periods. Repayment of principal on a Stafford Loan must generally commence following a period of (a) not less than 9 months or more than 12 months (with respect to loans for which the applicable interest rate is 7% per annum), and (b) not more than 6 months (with respect to loans for which the applicable interest rate is 9% per annum or 8% per annum and for loans to first time borrowers on or after July 1, 1988), after the borrower ceases to pursue at least a half-time course of study (each a "Grace Period"). However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily totally disabled, or during which the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled, or when the borrower is on parental leave to care for a newborn child or newly-adopted child, or is the mother of a pre-school child and is trying to re-enter the work force. Other Deferment Periods include periods of unemployment, economic hardship and qualified internships (each a "Deferment Period"). For new borrowers to whom loans are first disbursed on or after July 1, 1993, payment of principal may be deferred only while the borrower: (i) is at least a half-time student or is in an approved graduate fellowship program or is enrolled in a rehabilitation program; or (ii) subject in each instance to a maximum deferment of three years, when the borrower is seeking but unable to find full-time employment or when the lender determines, in accordance with regulations promulgated by the Secretary, that payment of principal will cause the borrower economic hardship. The lender must also allow periods of forbearance upon written request, renewable at twelve-month intervals, on terms agreed to in writing by parties to the loan: (i) during the borrower's participation in certain medical or dental internships or residency programs or in a national service position for which the borrower has received a national service award pursuant to the National and Community Service Trust Act of 1993; and (ii) during periods not in excess of three years in which the borrower's student loan debt burden equals or exceeds 20% of gross income (each, a "Forbearance Period").

Interest Subsidy Payments on Subsidized Stafford Loans

The Secretary is responsible for making Interest Subsidy Payments to holders of Subsidized Stafford Loans while the borrower is a Qualified Student, during certain Grace Periods or during any Deferment Period. The Secretary makes quarterly Interest Subsidy Payments in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions. Receipt of Interest Subsidy Payments is conditioned on the eligibility of the loan for insurance or reinsurance benefits. Such eligibility may be lost, if the

requirements of the federal government and the guaranty agency relating to the servicing and collection of the loans are not met.

Unsubsidized Stafford Loans

The 1992 Amendments created the Unsubsidized Stafford Loan program designed for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income and assets in excess of permitted amounts, or who need additional loans to supplement their Subsidized Stafford Loans. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate and the Special Allowance Payment provisions of the Unsubsidized Stafford Loans are the same as those of the Subsidized Stafford Loans. Annual loan limits applicable to Unsubsidized Stafford Loans were the same as those applicable to Subsidized Stafford Loans prior to the merger of the Unsubsidized Stafford Loan and SLS Loan programs described below. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the federal government will not make Interest Subsidy Payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins. The authority for offering Unsubsidized Stafford Loans is effective for periods of enrollment beginning on or after October 1, 1992.

The amount of periodic payments and the repayment schedule for an Unsubsidized Stafford Loan are established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the loan principal commences. At the option of the lender, the note or other written evidence of the loan may require that the amount of the periodic payment be adjusted annually or the period of repayment of principal be lengthened or shortened in order to reflect adjustments in interest rates. Additionally, the 10-year repayment period for such loans commences when the first payment of principal is due from the borrower.

Merger of Programs. Commencing July 1, 1994, the SLS Loan program has been replaced by the Unsubsidized Stafford Loan program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger.

PLUS and SLS Loan Programs

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students and SLS Loans to be made to certain categories of students. After July 1, 1993, only parents who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans with respect to the federal insurance and reinsurance on the loans. However, PLUS Loans and SLS Loans differ from Subsidized Stafford Loans, particularly because borrowers need not demonstrate Unmet Need to qualify for PLUS or SLS Loans and because Interest Subsidy Payments are not available and Special Allowance Payments are more restricted under the PLUS and SLS Programs.

Loan Limits. SLS Loan limits for loans disbursed on or after July 1, 1993 will depend upon the class year of the student and the length of the academic year. The annual loan limit for SLS Loans first disbursed on or after July 1, 1993 will range from \$4,000 for first and second year undergraduate borrowers to \$10,000 for graduate borrowers, with a maximum aggregate amount of \$23,000 for undergraduate borrowers, and \$73,000 for graduate and professional borrowers. The only limit on the annual and aggregate amounts of PLUS Loans first disbursed on or after July 1, 1993 is the cost of the student's education less other financial aid received, including scholarship, grants and other student loans. PLUS Loans and SLS Loans disbursed prior to July 1, 1993 were limited to \$4,000 per academic year with a maximum aggregate amount of \$20,000. The applicable loan limits with respect to PLUS Loans and SLS Loans disbursed prior to October 17, 1986 were \$3,000 annually and \$15,000 in aggregate.

Interest. Interest rates on PLUS Loans and SLS Loans depend upon the date of issuance of the loan and the period of enrollment. For PLUS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12% or 14% per annum. A

variable interest rate applies to PLUS Loans and SLS Loans made and disbursed on or after July 1, 1987, or made to refinance fixed-rate PLUS Loans. The variable interest rate for PLUS Loans and SLS Loans made and disbursed on or after July 1, 1987, but prior to October 1, 1992, is reset each July 1 and is effective through June 30 of the following year, at the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus 3.25%, with a maximum rate of 12% per annum. The variable interest rate for PLUS Loans and SLS Loans first disbursed on or after October 1, 1992 is based on the same bond equivalent rate of 52-week Treasury bills as PLUS Loans and SLS Loans disbursed prior to October 1, 1992, except that 3.10 % is added to the bond equivalent rate of 52-week Treasury bills auctioned prior to the applicable period, with a maximum rate of 11% per annum for SLS Loans, and a maximum rate of 10% per annum for PLUS Loans. The maximum rate applicable to PLUS Loans disbursed on or after July 1, 1994 is 9% per annum. PLUS Loans made on or after July 1, 1998 shall have an interest rate equal to the bond equivalent rate of the security with a comparable maturity as established by the Secretary plus 2.1%, not to exceed 9%. Special Allowance Payments are available on variable rate PLUS Loans and SLS Loans only if, at the time of computation, the rate determined by the formula above would exceed the applicable allowed maximum described above.

Repayment, Deferments. SLS borrowers have the option to defer commencement of repayment of principal until the commencement of repayment of Subsidized Stafford Loans. Otherwise, repayment of principal of PLUS Loans and SLS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions that apply to PLUS Loans are more limited than those that apply to Subsidized Stafford Loans. Repayment of principal, however, may be deferred only during certain periods of educational enrollments specified under the Higher Education Act. Further, whereas Interest Subsidy Payments are not available for such deferments, interest may be capitalized during such periods upon agreement of the lender and borrower. Maximum loan repayment periods and minimum payment amounts are the same as for Stafford Loans.

A borrower may refinance all outstanding PLUS Loans or SLS Loans under a single repayment schedule for principal and interest, with the new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such refinanced loan shall be the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan or SLS Loan that was initially originated at a fixed rate prior to July 1, 1987 in order to permit the borrower to obtain the variable interest rate available on PLUS Loans or SLS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original PLUS Loan or SLS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

Merger of Programs. Commencing July 1, 1994, the SLS Loan program has been replaced by the Unsubsidized Stafford Loan program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Stafford Loans. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all federally insured or reinsured student loans incurred under the Federal Family Education Loan Program selected by the borrower, as well as loans made pursuant to various other student loan programs and which may have been made by different lenders. Under this program, a lender may make a Consolidation Loan to an eligible borrower at the request of the borrower if the lender holds an outstanding loan of the borrower or the borrower certifies that he has been unable to obtain a Consolidation Loan from the holders of the outstanding loans made to the borrower.

These loans, for applications received on or after January 1, 1993, are available only to borrowers who have aggregate outstanding student loan balances of at least \$7,500; and for applications received before January 1, 1993, are available only to borrowers who have aggregate outstanding student loan balances of at least \$5,000. The

borrowers must be either in repayment status or in a Grace Period preceding repayment, and for applications received prior to January 1, 1993, the borrower must not be delinquent by more than 90 days on any student loan payment; for applications received on or after January 1, 1993, delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they have made arrangements to repay the defaulted loan which are satisfactory to the holder. For applications received on or after January 1, 1993, borrowers may within 180 days add additional loans for consolidation. For applications received on or after January 1, 1993, married couples who agree to be jointly and severally liable will be treated as one borrower for purposes of loan consolidation eligibility. The \$7,500 threshold does not apply to loans consolidated on or after July 1, 1994.

Consolidation Loans bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percentage; for loans consolidated prior to July 1, 1994 such rate will not be less than nine percent per annum. The repayment schedules for such Consolidation Loans will not exceed: 12 years for loans greater than or equal to \$7,500, but less than \$10,000; 15 years for loans greater than or equal to \$10,000, but less than \$20,000; 20 years for loans greater than or equal to \$20,000, but less than \$40,000; 25 years for loans greater than or equal to \$40,000, but less than \$60,000; and not more than 30 years for loans equal to or in excess of \$60,000. Effective July 1, 1994, Consolidation Loans for less than \$7,500 will have a repayment schedule of not more than 10 years. The Secretary makes Interest Subsidy Payments on Consolidation Loans for which applications were received on or after January 1, 1993 and before August 10, 1993. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will no longer make Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only Subsidized Stafford Loans. Interest on Consolidation Loans accrues and, for applications received prior to January 1, 1993, is to be paid by the borrower. For applications received on or after January 1, 1993, the borrower is eligible for certain deferments of principal and interest payments for periods similar to those for Subsidized Stafford Loans, and, subject to the foregoing, Interest Subsidy Payments are made to the eligible holder during such periods. Borrowers may elect to accelerate principal payments without penalty. Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a Consolidation Loan. However, a fee may be charged to the lender by the guaranty agency to cover the costs of increased or extended liability with respect to a Consolidation Loan. Holders of Consolidation Loans which were first disbursed on or after October 1, 1993 are required to make monthly rebate payments to the Secretary calculated on an annual basis equal to 1.05 percent of the principal plus accrued interest on such loans.

Repayment of Consolidation Loans begins 60 days after discharge of all prior loans that are consolidated. Repayment schedule options must include, for applications received on or after January 1, 1993, the establishment of graduated and income sensitive repayment plans, subject to certain limits applicable to the sum of the Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. The lender may, at its option, include such graduated and income sensitive repayment plans for applications received prior to that date. All eligible loans of a borrower selected for consolidation are discharged in the consolidation process and a new loan is issued.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders holding Federal Family Education Loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan (Stafford Loan, PLUS Loan, SLS Loan or Consolidation Loan), the date the loan was originally made or insured and the type of funding used by the holder to finance such loan (tax-exempt or taxable).

Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be between 3.1 and 3.5 percentage points above the average 91-Day T-Bill Rate for that quarter. The Special Allowance Payment will be calculated based on the quarterly average 91-Day T-Bill Rate plus 3.1% for loans made on or after October 1, 1992, except that, under the 1993 Amendment, Stafford Loans made on or after July 1, 1995 will qualify for Special Allowance Payments based on the 91-Day T-Bill Rate plus 2.5% while the borrower

is in-school, grace or deferment status. No Special Allowance Payments are made with respect to PLUS Loans and SLS Loans until the rate on the PLUS Loan or SLS Loan exceeds a certain rate per annum according to the type of loan and based on when the loan was first disbursed. In order to be eligible for Special Allowance Payments the rate on PLUS Loans first disbursed on or after October 1, 1992 must exceed 10% and for SLS Loans first disbursed on or after October 1, 1992 the rate must exceed 11%. The Special Allowance Payment rates applicable to Consolidation Loans are determined in the same manner as are those applicable to Subsidized Stafford Loans. The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures. Notwithstanding the foregoing, Special Allowance Payments applicable to certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations which were originally issued prior to October 1, 1993, are reduced by one-half, subject to certain minimums provided in the Higher Education Act. These minimum Special Allowance Payment rates effectively insure an overall minimum return of 9.5% on such loans. The Secretary is required, however, to reduce the total amount of Interest Subsidy Payments and Special Allowance Payments with respect to any loan for which the first disbursement was made on or after October 1, 1993 by an amount equivalent to .50 percent of the principal amount of such loan.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the federal or guaranty agency regulations specifying servicing and collection of the loan in the event of delinquency. In order to be eligible for the receipt of Special Allowance Payments in respect of Program Loans that have been financed by the holder through application of funds obtained through the issuance of tax-exempt obligations, the holder of such loans must receive approval by the Governor of the holder's State of a plan for doing business which complies with statutory requirements.

Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies

A loan made under the Federal Family Education Loan Program is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 180 days beyond the payment due date in the case of a loan repayable in monthly installments or for 240 days beyond the payment due date in the case of a loan repayable in less frequent installments.

If the loan in default is covered by federal loan insurance in accordance with the provisions of the Higher Education Act, the Secretary is to pay the insurance beneficiary the amount of the loss sustained thereby, upon notice and determination of such amount, within 45 days of such notification, subject to reduction as described below.

If the loan is guaranteed by a guaranty agency, the eligible lender is reimbursed by the guaranty agency pursuant to agreements for guarantee. Such agreements typically provide for reimbursement of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Pursuant to most agreements for guarantee between a guaranty agency and the originator of the loan, any eligible holder of a loan insured by such guaranty agency is entitled, subject to the preceding sentence, to reimbursement from such guaranty agency for 100% of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower prior to October 1, 1993, and for 98% of any proven loss incurred with respect to defaulted claims (and 100% of any proven loss incurred with respect to claims relative to certain lender-of-last-resort-loans or claims resulting from bankruptcy, death, disability, false certification or school closure), thereafter.

A holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices that are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guaranty agency has probable cause to believe that the holder has made misrepresentations or

failed to comply with the terms of its agreement for guarantee, the guaranty agency may take reasonable action including withholding of payments or requiring reimbursement of funds. The guaranty agency may also terminate the agreement for cause upon notice and hearing. Holders are required to request preclaims assistance from the guaranty agency in order to attempt to cure the delinquency. When a loan becomes 151 days past due, the holder is required to make a final demand for payment of the loan by the borrower. Holders may submit claims to the guaranty agency with respect to loans which become 180 days past due. At the time of payment of insurance benefits, the holder must assign to the guaranty agency all rights accruing to the holder under the note evidencing the loan.

Under the Higher Education Act, the Secretary enters into a guaranty agreement and an annually renewable supplemental guaranty agreement with each guaranty agency which provides for federal reinsurance for amounts paid to eligible lenders by the guaranty agency with respect to defaulted loans. Pursuant to such agreements, the Secretary is to reimburse a guaranty agency for a percentage of default losses and for 100% of the amounts expended in connection with a claim with respect to loans made under a qualifying lender-of-last-resort program or a claim resulting from the death, discharge in bankruptcy, or total and permanent disability of a borrower, the death of a student after July 22, 1992 whose parent is the borrower of a PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986 and who are unable to complete the programs in which they are enrolled due to school closure or whose borrowing eligibility was falsely certified by the eligible institution. Such claims are not included in calculating a guaranty agency's claims rate experience for purposes of reducing federal reinsurance payments received by guaranty agencies as described in the following paragraphs. The Secretary is also required to repay the unpaid balance of any loan if collection is stayed under the United States Bankruptcy Code and is authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Secretary.

Guaranty agencies are required to satisfy due diligence requirements prescribed by regulations with respect to defaulted loans. The Secretary may require repayment of reinsurance payments, and may require other remedial action, including the withholding of payments, imposition of fines and suspension or termination of agreements, in response to a guaranty agency's failure to comply with applicable regulations.

Under the Higher Education Act, reimbursement by the Secretary of a guaranty agency for any amounts paid to satisfy claims with respect to loans which are not made under a qualified lender-of-last-resort program and which do not result from death, bankruptcy, disability, school closure or false certification is subject to reduction as described in the following paragraphs.

The original principal amount of loans guaranteed by a guaranty agency that are in repayment for purposes of computing reimbursement payments to a guaranty agency means the original principal amount of all loans guaranteed by a guaranty agency less: (i) guarantee payments on such loans; (ii) the original principal amount of such loans which have been fully repaid; and (iii) the original amount of such loans for which the first principal installment payment has not become due.

The amount of such insurance or reinsurance payments is subject to reduction based upon the annual claims rate of the guaranty agency, calculated to equal the amount of federal reinsurance as a percentage of the original principal amount of guaranteed loans in repayment on the last day of the prior fiscal year. The formula generally applicable to loans first disbursed prior to October 1, 1993 is as follows:

<u>Claims Rate</u>	<u>Federal Payment</u>
0% up to 5%	100% of claim amounts
5% up to 9%	100% of claims up to 5%, 90% of claims of 5% and over
9% and over	100% of claims up to 5%, 90% of claims of 5% to 9%, and 80% of claims of 9% and over

The formula generally applicable to loans first disbursed on or after October 1, 1993 is as follows:

<u>Claims Rate</u>	<u>Federal Payment</u>
0% up to 5%	98% of claim amounts
5% up to 9%	98% of claims up to 5%, 88% of claims of 5% and over
9% and over	98% of claims up to 5%, 88% of claims of 5% to 9%, and 78% of claims of 9% and over

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the end of the prior federal fiscal year.

Notwithstanding the foregoing: (i) the Secretary will reimburse a guaranty agency with respect to loans first disbursed on or after October 1, 1993 which are transferred from an insolvent guaranty agency pursuant to a plan approved by the Secretary at rates applicable to loans first disbursed before that date; and (ii) the Secretary will reimburse a guaranty agency with respect to loans made pursuant to a qualifying lender-of-last-resort program at a rate of 100% of claim amounts.

Pursuant to the 1992 Amendments, guaranty agencies are required to maintain specific reserve fund levels. Such levels are defined as 0.5% for the agency's fiscal year beginning in 1993, 0.7% for the agency's fiscal year beginning in 1994, 0.9% for the agency's fiscal year beginning in 1995 and 1.1% for the agency's fiscal year beginning on or after January 1, 1996. If the agency fails to achieve the minimum reserve level in any of two consecutive years, if the agency's federal reimbursements are reduced to 80 percent or if the Secretary determines the agency's administrative or financial condition jeopardizes its continued ability to perform its responsibilities, the Secretary may require the agency to submit and implement a management plan to address the deficiencies. The Secretary may terminate the agency's agreements with the Secretary if the agency fails to submit the required plan, or fails to improve its administrative or financial condition substantially, or if the Secretary determines the agency is in danger of financial collapse. In such event, the Secretary is authorized to undertake specified actions to assure the continued payment of claims, including the transfer of guarantees to another agency, or transfer of guarantees to the Department itself.

The Higher Education Act provides that, subject to compliance with the Higher Education Act, the full faith and credit of the United States is pledged to the payment of insurance claims. It further provides that guaranty agencies shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, the 1992 Amendments provide that if the Secretary determines that a guaranty agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guaranty agency capable of meeting such obligations or until a successor guaranty agency assumes such obligations and further provide that the Secretary will pay to holders the full insurance obligations of such guaranty agency, in accordance with requirements which are no more stringent than those of such guaranty agency. There can be no assurance, however, that the Secretary will ever make such a determination or will do so in a timely manner. The Higher Education Act also provides that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to a guaranty agency in order to assist the guaranty agency in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders.

The 1993 Amendments add to the Higher Education Act, as "clarification", provisions to the effect that, notwithstanding any other provision of law, the reserve funds of the guaranty agencies, and any assets purchased with these reserves funds, regardless of who holds or controls the reserves or assets, are the property of the United States, to be used in the operation of the FFEL Program or, alternatively, to be used in the operation of the alternative Federal Direct Student Loan Program established by the 1993 Amendments. These reserves will be required to be maintained by each guaranty agency to pay program expenses and contingent liabilities, as authorized by the

Secretary. The 1993 Amendments further provide that the Secretary is prohibited from requiring the return of all of a guaranty agency's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL Program or the Federal Direct Student Loan Program, or to ensure the proper maintenance of such agency's funds or assets or the orderly termination of the guaranty agency's operations and the liquidation of its assets. However, the Secretary is also authorized to direct a guaranty agency to: (i) return to the Secretary all or a portion of its reserve fund that the Secretary determines is not needed to pay for the agency's program expenses and contingent liabilities; (ii) return to the Secretary or the guaranty agency any funds or assets held by, or under the control of, any other entity, which the Secretary determines are necessary to pay the program expenses and contingent liabilities of the agency, or which are required for the orderly termination of the agency's operation and liquidation of its assets; and (iii) cease any activities involving the expenditure, use or transfer of the guaranty agency's reserve funds or assets which the Secretary determines is a misapplication, misuse or improper expenditure. Currently applicable federal budgetary legislation, however, conditions the ability of the Secretary to require the return of guaranty agency reserves during federal fiscal year 1996 upon prior congressional consultation and requires that any such funds recovered be applied to reduce the federal deficit.

The 1993 Amendments give the Secretary increased flexibility to terminate a guaranty agency's agreement by allowing the Secretary to terminate the agreement if the Secretary determines that termination is necessary to protect the federal financial interest, to ensure the continued availability of loans to student or parent borrowers, or to ensure an orderly transition from the FFEL Program to the Federal Direct Student Loan Program.

The 1993 Amendments also expand the Secretary's authorized functions when a guaranty agency's agreement is terminated. The Secretary is authorized to provide the guaranty agency with additional advance funds with such restrictions on the use of such funds as are determined appropriate by the Secretary in order to meet the immediate cash needs of the guaranty agency, ensure the uninterrupted payment of claims, or ensure that the guaranty agency will make loans as the lender-of-last-resort. Finally, the 1993 Amendments authorize the Secretary to take whatever other action is necessary to ensure an orderly transition from the FFEL Program to the Federal Direct Student Loan Program.

The 1993 Amendments provide that if the Secretary has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary's action with respect to that guaranty agency; (ii) any contract entered into by the guaranty agency with respect to the administration of the agency's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days' notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of this law; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guaranty agency. Finally, notwithstanding any other provision of law, the 1993 Amendments provide that the Secretary's liability for any outstanding liabilities of a guaranty agency (other than outstanding student loan guarantees under Part D of Title IV of the Higher Education Act) the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs.

Federal reinsurance and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Federal Budgetary Constraints

Under the 1990 Budget Act, the budgeted cost of the Federal Family Education Loan Program includes the present value of the long-term cost to the government of loans reinsured during each fiscal year beginning in 1992 (excluding administrative costs and certain incidental costs), regardless of how far into the future the costs will be

incurred as well as costs resulting from loan reinsurance commitments made prior to fiscal year 1992 on the basis of the year in which paid.

To ensure that revenue levels and spending limits established in the 1990 Budget Act are realized during the five-year period covered by the Act, the legislation creates a "pay-as-you-go" process that includes budget sequestration. The legislation divides the budget into three parts for this purpose—receipts (e.g., tax revenues), discretionary spending, and entitlements. The Federal Family Education Loan Program is considered an entitlement for this purpose.

If new entitlement spending would cause the entitlement spending limits of the 1990 Budget Act to be breached in a fiscal year, the Act requires that the President to order "across-the board" cuts in entitlements to insure that the spending limits are not exceeded. Thus, new spending in Medicare, for example, could cause a sequester affecting the Federal Family Education Loan Program.

A sequester is ordered within 15 days of the end of the session of Congress that is underway at the beginning of the fiscal year. If legislation enacted in the next session of Congress would cause the spending limits to be exceeded, a sequester is ordered 14 days after enactment of that legislation, for legislation enacted before July 1 of the fiscal year. For legislation enacted after July 1, the following year's spending limits are reduced by the amount of the excess spending created by the new legislation in the current year.

New entitlement spending caused by economic conditions (e.g., higher than projected interest rates) or increased utilization rates do not violate the spending limits established by the Act. Only legislative actions creating new spending are covered.

In addition, a special sequestration rule applicable to the Federal Family Education Loan Program under prior law is maintained in the new budget process. Under the 1985 Budget Act, as amended, if specified reductions in the National Wool Act Program, the Special Milk Program, and the Vocational Rehabilitation Program fail to achieve the required savings, this special sequestration rule for the Federal Family Education Loan Program applies. Under this special rule: (i) any Federal Family Education Loan made in the fiscal year for which sequestration is in effect is subject to a reduced special allowance rate based on the 91-Day T-Bill Rate plus 3.0% for the first four calendar quarters that the loan is outstanding; and (ii) each Subsidized Stafford Loan borrower's loan origination fee is increased by .5%.

No assurance can be given that sequestration of federal funding in response to federal budgetary concerns will not have an adverse effect on the Federal Family Education Loan Program in future years.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the United States Bankruptcy Code, education loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides as follows:

(a) A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt -

(8) for an educational benefit overpayment or loan made, insured or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless -

(A) such loan, benefit, scholarship or stipend overpayment first became due before seven years (exclusive of any applicable suspension of the repayment period) before the date of the filing of the petition; or

(B) excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

Servicer Provisions and Third-Party Servicer Regulations.

On April 29, 1994, the Department published regulations amending the Student Assistance General Provisions and FFEL Program regulations which, among other things, establish requirements governing contracts between holders of FFEL Program loans and third-party servicers, establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guaranty agency's or lender's participation in the FFEL Program, and establish sanctions for third-party servicers.

Under these regulations, a third-party servicer is jointly and severally liable with its client lenders, guaranty agencies and educational institutions, as applicable, for liability to the Department arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the new regulations, or violates other FFEL Program requirements, the new regulations authorize the Department to fine the servicer or limit, suspend, or terminate the servicer's eligibility to contract to service Student Loans. The effect of such a limitation, suspension, or termination on a servicer's eligibility to service loans already on its system, or to accept new loans for servicing under existing contracts, is unclear. No assurance exists that the Corporation will not be held liable by the Department for liabilities arising out of its FFEL Program activities for the Corporation or other client lenders, or that its eligibility will not be limited, suspended, or terminated in the future. If the Corporation were so held liable or its eligibility limited, suspended, or terminated, its ability to properly service Student Loans and to satisfy its obligations with respect thereto may be adversely affected.

Loan Origination and Servicing Procedures Applicable to Student Loans

The Higher Education Act, including the implementing regulations thereunder, imposes specified requirements, guidelines and procedures with respect to originating and servicing student loans such as the Financed Student Loans. Generally, those procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower under applicable standards be made, the borrower's responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and then that the loan proceeds be disbursed in a specified manner by the lender. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferrals and forbearance and credit the borrower for payments made thereon. If a borrower becomes delinquent in repaying a loan, a lender or a servicing agent must perform certain collection procedures (primarily telephone calls and demand letters) which vary depending upon the length of time a loan is delinquent. Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon lenders who fail to comply with their provisions. In certain circumstances, the Corporation may be liable for certain violations of consumer protection laws that apply to the Financed Student Loans, either as assignee or as the party directly responsible for obligations arising after the transfer.

Federal Direct Student Loan Program

Under the Federal Direct Student Loan Program (the "FDSL Program") established by the 1993 Amendments, a variety of direct federal loans with terms and conditions generally similar to those available under the FFEL Program may be obtained by students, or parents of students, attending participating Institutions of Higher Education ("IHE") through the applicable IHE or through an alternative originator designated by the Secretary, without application to an outside lender. The FDSL Program is to be funded and administered by the Secretary. The Secretary is authorized to take whatever action is necessary to ensure an orderly transition from the FFEL Program

to the FDSL Program. The FDSL Program provides for a variety of repayment plans from which borrowers may choose, including repayment plans based on income.

In order to ensure transition from the FFEL Program to the FDSL Program, the Secretary is required in the exercise of his or her discretion, to determine the number of IHEs with which to enter into participation or origination agreements in a given academic year. The provisions give the Secretary the flexibility to determine how rapidly to expand the FDSL Program so that: (1) for academic year 1994-1995, 5 percent of new federal student loan volume under the FDSL Program and the FFEL Program combined (excluding consolidation loans) will be comprised of FDSL Program loans; (2) for academic year 1995-1996, 40 percent of new student loan volume for those two programs will be comprised of FDSL Program loans; (3) for academic years 1996-1997 and 1997-1998, FDSL Program loans will comprise 50 percent of the new student loan volume for such years; and (4) for academic year beginning 1998, 60 percent of the new student loan volume will be comprised of FDSL Program Loans. The Secretary may exceed the limits specified for academic years beginning in 1996 if the Secretary determines that a higher percentage rate is warranted by the number of eligible IHEs that desire to participate. Under proposed legislation now pending before Congress, the FDSL Program could be significantly changed and the percentage of new loans originated under the FDSL Program could be greater or less than the percentages set forth above. See "-- Legislative and Administrative Matters" herein.

In addition, if a borrower is unable to obtain a Consolidation Loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding FFEL loans (that are selected for consolidation), or from any other lender, including the Student Loan Marketing Association, the 1993 Amendments authorize the Secretary to offer the borrower a consolidation loan with income sensitive terms under the FDSL Program.

Appendix B

Summary of Certain Provisions of the Resolutions

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The Resolutions contain various covenants and security provisions, certain of which are summarized below and not otherwise deemed or discussed in this Official Statement. Reference should be made to the Resolutions for a full and complete statement of their provisions. The Resolutions may be modified by the provisions of Series Resolutions.

Definitions. In the Resolutions, the following words and terms (unless the context otherwise requires) are defined as follows:

"Account" means any of the special trust accounts created and established by, or pursuant to, the Resolutions.

"Accountant" or "Auditor" means any independent certified public accountant, or a firm of those accountants, duly licensed to practice and practicing as such under the laws of the Commonwealth, selected by the Corporation, who is independent and not under the domination or control of the Corporation and who does not have any substantial interest, direct or indirect, in the Corporation, but who may be regularly retained to make annual or similar audits of the books or records of the Corporation.

"Act" means Sections 164A.010 to 164A.230, inclusive, of the Kentucky Revised Statutes, as heretofore or hereafter amended.

"Additional Obligations" means any Obligations other than the initial two Series of Obligations which shall be authenticated and delivered on original issuance pursuant to the Resolutions or thereafter authenticated or delivered in lieu of or in substitution for any such Obligation pursuant to the Resolutions.

"Agent Member" means a member of, or participant in, the Securities Depository.

"Applicable Law" means: (i) with respect to Student Loans originated pursuant to the Federal Family Education Loan Program, the Act and the Higher Education Act; and (ii) with respect to any other Student Loans, the Act, any other state or federal law applicable thereto or any regulation promulgated thereunder.

"ARCs" means Auction Rate Certificates.

"Authorized Officer" means the Chairman, Secretary-Treasurer, Executive Director, Chief Executive Officer or Chief Financial Officer of the Corporation, and any other of its directors, officers, agents or employees duly authorized by the by-laws or by a resolution of the Corporation to perform the act or sign the document in question.

"Bonds" means debt obligations of the Corporation, whether or not so designated, other than Notes or Other Obligations, issued to finance or refinance the making or purchase of Student Loans by the Corporation pursuant to the Resolutions, which mature no later than thirty years from the date of original issuance of such Bonds.

"Business Day" means, with respect to each Series of Obligations, any day on which banks located in none of: (i) the Commonwealth of Kentucky; (ii) the city in which the principal corporate trust office of each Fiduciary applicable to such Series of Obligations; (iii) the City in which the principal offices of the Corporation and (iv) the

city in which the principal offices of each applicable Obligation Facility Provider applicable to such Series are located are required or authorized by law to remain closed and on which the New York Stock Exchange is not closed, except as otherwise provided with respect to any Series by the Series Resolution authorizing such Series.

"Carry-over Amount" means, with respect to any Series of Bonds or Notes, the amount, if any, so described in the applicable Series Resolution authorizing such Series, and with respect to any Subseries of the Series 1997-A Bonds, means the excess, if any, of (a) the amount of interest on any Subseries of a Series 1997-A Bond that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on any Subseries of such Series 1997-A Bond actually accrued with respect to any Subseries of such Series 1997-A Bond, with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to "principal" or "interest" in the Resolutions or in any Subseries of the Series 1997-A Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

"Cash Flow Projection" means a schedule prepared on behalf of the Corporation by a nationally recognized investment banking firm or other entity selected by the Corporation and approved in writing by the Rating Agencies receiving such Cash Flow Projection which: (i) sets forth, through the last final maturity of any Series of Outstanding Obligations (or such shorter period as shall be acceptable to the Rating Agencies), (A) all anticipated Revenues, (B) the application of all such Revenues in accordance with the Resolutions and (C) the resulting balances for each period for which prepared and on a cumulative basis; and (ii) evidences that Revenues and other monies available under the Resolutions will be sufficient to pay all debt service on the Obligations when due and to make all other payments required by the terms of the Resolutions. Each Cash Flow Projection shall be based on the assumptions used in the cash flow projections delivered to the Rating Agencies at the time of issuance of the most recently issued Series of Obligations (or such other assumptions as may be proposed by the Corporation and acceptable to the Rating Agencies).

"Certificate" means: (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to this Resolution; or (ii) the report of an accountant as to audit or other procedures called for by the Resolutions.

"Class" means all Obligations having the same priority of claim as to payment under the Resolutions.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Obligations or the use of the proceeds thereof. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

"Commonwealth" means the Commonwealth of Kentucky.

"Corporation" means the Kentucky Higher Education Student Loan Corporation, an independent de jure municipal corporation and political subdivision of the Commonwealth, created and existing under and pursuant to the Act, or any body, agency, authority or instrumentality of the Commonwealth that shall hereafter succeed to the powers, duties and functions of the Corporation.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation and related to the authorization, sale and issuance of Obligations, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary or of its counsel, legal fees and charges, fees and expenses of underwriters, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Obligations, costs and expenses of refunding, premiums, fees, expenses or other similar charges payable to any Obligation Facility Provider (other than Reimbursement Obligations or Other Obligations) or a Swap

Provider (other than Swap Payments or Other Obligations), financing charges, accrued interest with respect to the initial investment of proceeds of Obligations, and any other cost, charge or fee in connection with the original issuance of the Obligations.

"Counsel's Opinion" means a written opinion signed by Hawkins, Delafield & Wood or by another attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Corporation and reasonably satisfactory to the Trustee and any applicable Obligation Facility Provider.

"Debt Service Reserve Account" means the special trust account so denominated established pursuant to the Resolutions.

"Defeasance Securities" means obligations described in paragraph (1) of the definition of Investment Securities included hereunder.

"Earnings Account" means the special trust account so denominated established pursuant to the Resolutions.

"Eligible Lender" means the Kentucky Higher Education Assistance Authority, a de jure political subdivision of the Commonwealth of Kentucky and the Corporation and all other entities described as eligible lenders in the Higher Education Act which have in force a contract with a Guarantee Agency providing for loan guarantees to be issued by a Guarantee Agency to the subject lender under the Higher Education Act and the Act.

"Event of Default" means any of the events specified in the Resolutions.

"Excess Coverage" means, as of any date of calculation, the condition under which the sum of the value of (a) the Loans (valued as provided in the Resolutions) credited to the Loan Account and (b) all cash and Investment Securities held in the Accounts (valued as set forth in the Resolutions, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the Resolutions and excluding amounts on deposit in the Rebate Account) shall be at least equal to each of the following three sums: (x) 106% of the sum of the principal of and accrued interest on all Outstanding Senior Obligations plus all accrued but unpaid Program Expenses; (y) 103% of the sum of the principal of and accrued interest on all Outstanding Senior Obligations and Senior Subordinate Obligations plus all accrued but unpaid Program Expenses; and (z) 102% of the sum of the principal of and accrued interest on all Outstanding Obligations plus all accrued but unpaid Program Expenses.

"Federal Family Education Loan Program" or "FFELP" means the program currently authorized by Title IV Part B of the Higher Education Act, as heretofore or hereafter amended.

"Fiduciary" means the Trustee, any Paying Agent and any such additional fiduciary as may be authorized under the Resolutions, or any or all of them as may be appropriate.

"Fiscal Year" means the fiscal year of the Corporation for general financial reporting purposes as modified from time to time. As of the date of the Resolutions the Corporation's Fiscal Year is July 1 to June 30.

"Guaranty Agency" or "Guarantee Agency" means: (i) the Kentucky Higher Education Assistance Authority duly organized and existing pursuant to the statutory laws of the Commonwealth of Kentucky; (ii) any other guaranty agency under the Higher Education Act, subject to receipt of a Rating Affirmation; and (iii) any successor to the obligations of any such Guaranty Agency under the Higher Education Act.

"Higher Education Act" means the Higher Education Act of 1965, as amended from time to time, and the regulations promulgated thereunder.

"Holder" or "Owner", or words of similar import, when used with reference to an Obligation means the registered owner of such Obligation.

"Investment Securities" means, with respect to any Series, except as otherwise provided by a Series Resolution authorizing such Series, any of the following, if and to the extent the same are at the time legal for investment of the Corporation's funds:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively "United States Obligations"). The foregoing obligations include, but are not necessarily limited to: (i) U.S. Treasury Obligations (all direct or fully guaranteed obligations); (ii) Farmers Home Administration (certificates of beneficial ownership); (iii) General Services Administration (participation certificates); (iv) U.S. Maritime Administration (guaranteed Title XI financing); (v) Small Business Administration (guaranteed participation certificates and guaranteed pool certificates); (vi) Government National Mortgage Association (GNMA) (GNMA-guaranteed mortgage-backed securities and GNMA-guaranteed participation certificates); (vii) U.S. Department of Housing & Urban Development (local authority bonds); (viii) Washington Metropolitan Area Transit Corporation (guaranteed transit bonds); and (ix) U.S. Export-Import Bank (all fully guaranteed obligations).
2. Federal Housing Administration debentures.
3. Obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government which are rated "Aaa" by Moody's, including: (i) Federal Home Loan Mortgage Corporation (FHLMC) (participation certificates and Debt obligations); (ii) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) (consolidated system-wide bonds and notes); (iii) Federal Home Loan Banks (FHL Banks) (consolidated debt obligations and letter of credit (LOC) -backed issues); (iv) Federal National Mortgage Association (FNMA) (senior debt obligations and Mortgage-backed securities (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)); (v) Student Loan Marketing Association (SLMA) (senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)); (vi) Financing Corporation (FICO) (debt obligations); and (vii) Resolution Funding Corporation (REFCORP) (debt obligations).
4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "P-1" by Moody's.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
6. Commercial paper (having original maturities of not more than 270 days) rated "Prime-1" by Moody's.
7. Money market funds which are (a) rated "Aa2" by Moody's or (b) which constitute a money market fund of the Trustee which invests in: (i) Investment Securities described in paragraph (1)(a); and

(ii) repurchase agreements collateralized by Investment Securities described in paragraph (1)(a) which are otherwise described in paragraph (8).

8. Repurchase agreements ("repos") in a form acceptable to Moody's: (a) with any bank with deposits rated at least "Aa2" by Moody's; provided the term of such repo is for less than two years; or (b) with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "Aa2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC).

9. Obligations that are: (a) direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "Aa2" by Moody's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (b) direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "Prime-1" by Moody's; or (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "Aa" or better by Moody's.

10. Investment agreements with (1) a domestic bank the long term debt of which is rated at least "Aa2" by Moody's or (2) a foreign bank the long-term debt of which is rated at least "Aaa" by Moody's; provided, that, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Obligations the proceeds of which are invested thereunder; (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Trustee shall give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; (d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the applicable Series Resolution; (e) the Trustee receives an Opinion of Counsel (which opinion shall be addressed to the Corporation and each applicable Obligation Facility Provider) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms; and (f) the investment agreement must provide that if during its term (i) the provider's rating by Moody's is withdrawn or suspended or falls below "A", the provider must give notice of same to the Corporation and the Trustee and must, at the direction of the Corporation or the Trustee (who shall give such direction if so directed by each applicable Obligation Facility Provider), within 10 days of receipt of such direction, either (a) collateralize the investment agreement as specified under the collateralization requirements for repurchase agreements or (b) repay the principal of and accrued but unpaid interest on the investment (the choice of (a) or (b) above shall be that of the Corporation or the Trustee, as appropriate), and (ii) the provider's rating by Moody's falls below "Aa2", the provider must give notice of same to the Corporation and the Trustee and must, at the direction of the Corporation or the Trustee (who shall give such direction if so directed by each applicable Obligation Facility Provider), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Corporation or Trustee.

11. Pre-refunded municipal obligations rated "Aaa" by Moody's meeting the following requirements: (a) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of,

interest, and premium, if any, due and to become due on the municipal obligations ("Verification"); (d) the cash or United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; (e) no substitution of a United States Obligation shall be permitted except with another United States Obligation and upon delivery of a new Verification; and (f) the cash or United States Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

12. Subject to the prior written approval of each applicable Obligation Facility Provider, such other obligations as shall be permitted to be legal investments of the Corporation by the laws of the Commonwealth.

"Loan" means any Student Loan or other loans credited to the Loan Account.

"Loan Account" means the special trust account so denominated established pursuant to the Resolutions.

"Loan Program" means the program for the financing of Student Loans established by the Corporation, as the same may be amended from time to time consistent with the Resolutions, but only to the extent that such program is financed through the issuance of Obligations or from amounts otherwise available out of the moneys and assets held or pledged pursuant to the Resolutions.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation, by notice to the Trustee and each other Fiduciary and each applicable Obligation Facility Provider.

"Most Senior Outstanding Obligations" means, at any time: (i) if any Senior Obligations are then Outstanding, such Senior Obligations; and (ii) if no Senior Obligations are then Outstanding, the Class of Senior Subordinate Obligations or Subordinate Obligations then Outstanding having the most senior priority as to payment hereunder.

"Notes" means debt obligations of the Corporation, whether or not so designated, other than Bonds or Other Obligations, issued to finance or refinance the making or purchase of Student Loans by the Corporation or any renewal thereof issued pursuant to the Resolutions, which mature no later than five years from the date of original issuance of such Notes.

"Notional Amount" means the nonpayable or the theoretical principal amount with reference to which Swap Payments and Swap Receipts are calculated, as specified as such for each Swap in the documentation applicable thereto.

"Obligation Facility" means any insurance policy, surety agreement, letter of credit or other credit enhancement or liquidity facility entered into for the same or similar purposes, with respect to any Series of Obligations, or with respect to any Student Loans described in clause (B) of the definition thereof herein which is delivered to the Trustee along with a Certificate of an Authorized Officer to which a Rating Affirmation is attached.

"Obligation Facility Provider" means any bank or insurance company providing an Obligation Facility with respect to a Series and any successor to such an Obligation Facility Provider.

"Obligation Facility Provider Default" means any one of the following events shall have occurred and be continuing:

- (i) an Obligation Facility Provider fails to make or provide for any payment required under the Obligation Facility in accordance with its terms;

(ii) an Obligation Facility Provider (A) files any petition or commences any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (B) makes a general assignment for the benefit of its creditors, or (C) has a final and nonappealable order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization;

(iii) a court of competent jurisdiction, or other competent regulatory authority enters a final and nonappealable order, judgment or decree (1) appointing a custodian, trustee, agent or receiver for an Obligation Facility Provider or for all or any material portion of its property or (2) authorizing the taking of possession by a custodian, trustee, agent or receiver of an Obligation Facility Provider (or the taking of possession of all or any material portion of the property of an Obligation Facility Provider); or

(iv) with respect to any Series of Obligations if so provided by the Series Resolution authorizing such Series, one or more Rating Agency reduces its rating with respect to such Obligation Facility Provider to a rating below that originally assigned to such Series by such Rating Agency; provided, that no such reduction shall affect the rights of such Obligation Facility Provider with respect to Obligations then held by it.

"Obligations" means Bonds, Notes, Reimbursement Obligations, Swap Payments and Other Obligations issued or authorized pursuant to the Resolutions and any applicable Series Resolution.

"Operating Account" means the special trust account so denominated established pursuant to the Resolutions.

"Origination Agreement" means any agreement providing for the origination or for the origination and sale of Student Loans to be financed through application of the proceeds of any Series of Obligations.

"Other Obligations" means debt obligations of the Corporation, other than Bonds and Notes, issued to finance or refinance the making or purchase of Student Loans by the Corporation pursuant to the Resolutions, but does not include any Swap Payments or Reimbursement Obligations.

"Outstanding", when used with reference to Obligations, means, as of any date, all Obligations theretofore or thereupon being authenticated and delivered under the Resolutions except:

(1) any Obligation cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(2) any Obligation (or portion of an Obligation) for the payment or redemption of which there have been separately set aside and held in a special trust account therefor either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Obligation to the Redemption Date; or

(b) Defeasance Securities, as described in the Resolutions, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment when due of the principal or applicable Redemption Price of such Obligation, together with accrued interest on such Obligation to the Redemption Date; or

(c) any combination of (a) and (b) above;

provided, however, that Obligations which have been paid with proceeds of an Obligation Facility shall be deemed to continue to remain Outstanding as Reimbursement Obligation Bonds as evidence of the related Reimbursement Obligation for purposes of the Resolutions and to bear interest at the rate provided in the related Obligation Facility until each applicable Obligation Facility Provider has been paid as subrogee or reimbursed under the Resolutions as evidenced by a written notice from each applicable Obligation Facility Provider delivered to the Trustee, and each applicable Obligation Facility Provider shall be deemed to be the Owner of such Obligations to the extent of any payments thereon made by each applicable Obligation Facility Provider, but only to the extent that principal of the Obligations was so paid; or

(3) any Obligation in lieu of or in substitution for which other Obligations shall have been authenticated and delivered pursuant to the Resolutions.

"Paying Agent" means the Trustee and any bank or trust company designated as paying agent for the Obligations, and its successor or successors hereafter appointed, in the manner provided in the Resolutions.

"Program Agreement" means, with respect to any Series of Obligations, each Origination Agreement and Servicing Agreement applicable to such Series.

"Program Expenses" means all of the Corporation's expenses in carrying out and administering its Loan Program under the Resolutions and shall include, without limiting the generality of the foregoing, salaries, origination, acquisition and servicing fees, supplies, utilities, mailing, labor, materials, office rent or mortgage payment, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Obligations, including but not limited to premiums, fees, expenses or other similar charges payable to an Obligation Facility Provider or a Swap Provider (but not including Reimbursement Obligations, Swap Payments or Termination Payments), travel, payments for pension, thrift savings, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the Loan Program. Program Expenses may also include amounts for establishing and maintaining a six-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by the Corporation and amounts appropriate to reimburse the Corporation for Program Expenses paid from other sources all to the extent properly allocable to the Loan Program.

"Rating Affirmation" means, with respect to each Series, the written affirmation of each Rating Agency then maintaining a rating with respect to a Series to the effect that the actions addressed therein would not cause such Rating Agency to reduce or suspend any rating then applicable to such Series.

"Rating Agency" or "Rating Agencies" means, with respect to each Series, each of Moody's and any other nationally recognized securities rating agency which is maintaining a rating at the request of the Corporation with respect to such Series.

"Rebate Account" means the special trust account so denominated established pursuant to the Resolutions.

"Recycling Period" means (i) with respect to the Series 1997-A Bonds, the period ending May 1, 2002, and (ii) with respect to the Series 1997-B Bonds, the period ending May 1, 2002, except as such dates may be extended by a Certificate of an Authorized Officer accompanied by a Rating Affirmation.

"Redemption Date" means each date upon which Bonds are to be called for redemption pursuant to the Resolutions.

"Redemption Price" means, with respect to any Obligation, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

"Refunding Obligations" means any Obligation authenticated and delivered on original issuance pursuant to the Resolutions some portion of the proceeds of which are applied to the payment of principal or interest of Obligations or Separately Secured Financings or thereafter authenticated and delivered in lieu of or in substitution for any such Obligation pursuant to the Resolutions.

"Registrar" means the Trustee or any other agent of the Corporation at the office of which Obligations may be presented for registration, transfer or exchange as provided in the Resolutions.

"Reimbursement Obligation" means any obligation of the Corporation to make payments to an Obligation Facility Provider in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Obligation) an advance or other payment made by such Obligation Facility Provider for the purpose of paying:

- (i) the principal or Redemption Price of, or interest on, any Obligations; or
- (ii) the purchase price, plus accrued interest, if any, of any Obligations tendered pursuant to the provisions of the applicable Series Resolution,

but only to the extent the principal amortization requirement with respect to such reimbursement is equal to the amortization requirement for such related Obligations, without acceleration. Reimbursement Obligations shall not include: (i) any payments of any fees, expenses, or other similar obligations to any such provider (which payments shall be Program Expenses); or (ii) any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Obligations (which payments shall be Other Obligations). Reimbursement Obligations may be evidenced by Bonds designated as "Reimbursement Obligation Bonds", which may bear a higher interest rate than the rate borne by the Obligations to which they relate.

"Reserve Account Requirement" means an amount established by each applicable Series Resolution. The Series 1997-A Bond Resolution and the Series 1997-B Bond Resolution provide that, with respect to the Series 1997-A Bonds and the 1997-B Bonds, the Reserve Account Requirement shall be equal to two percent (2%) of the aggregate principal amount of the then Outstanding Series 1997-A Bonds and Series 1997-B Bonds.

"Resolutions" means the 1997 General Bond Resolution adopted by the Corporation on May 9, 1997, as supplemented by the Series 1997-A Bond Resolution and by the Series 1997-B Bond Resolution, and as from time to time amended or supplemented in accordance with the terms and provisions of the Resolutions.

"Revenue Account" means the special trust account so denominated established pursuant to the Resolutions.

"Revenues" means (i) all receipts in respect of payments, proceeds, charges and other cash income received by the Corporation, by the Servicer or by the Trustee for the account of the Corporation from or on account of any Loan, or as a result of the sale or alienation thereof (including scheduled, delinquent and advance payments of interest or principal on any Loan or other payment received by the Trustee, the Corporation or a Servicer with respect to any Loan, but excluding any amount retained by the Servicer of any Loan as compensation for services rendered in connection with the servicing of such Loan); (ii) all interest earned or gain realized from the investment of amounts in any Account (other than amounts credited or required to be deposited to the Operating Account, Earnings Account and the Rebate Account; and (iii) any amount received by the Trustee under any Swap or Swap Facility (other than an initial payment by the Swap Provider assigned by the Corporation to the Trustee for deposit to the credit of the Operating Account) including, without limitation, any Swap Receipts and Termination Receipts.

"Securities Depository" means The Depository Trust Company and its successors and assigns or if: (i) the then Securities Depository resigns from its functions as depository of the Obligations; or (ii) the Corporation discontinues use of the Securities Depository, any other securities depository which agrees to follow the procedures

required to be followed by a securities depository in connection with the Obligations and which is selected by the Corporation with the consent of the Trustee and each applicable Obligation Facility Provider.

"Senior Obligations" means the Class of Obligations issued pursuant to the Resolutions in accordance with the requirements thereof and having a priority of claim as to payment from the Trust Estate that is equal to that of all other Senior Obligations and senior to that of all Subordinate Obligations (including Senior Subordinate Obligations); provided, that at any time at which no Obligations issued or originated as Senior Obligations remain Outstanding, Senior Obligations shall be deemed to mean the most senior Class of Obligations issued or originated as Subordinate Obligations (including Senior Subordinate Obligations) then Outstanding, except that in no event shall Subordinate Obligations (including Senior Subordinate Obligations) be deemed to be Senior Obligations for purposes of priority of claim as to payment under the Resolutions.

"Senior Subordinate Obligations" means the Class of Subordinate Obligations issued pursuant to the Resolutions in accordance with the requirements thereof and having a priority of claim as to payment from the Trust Estate that is: (i) subordinate to all Senior Obligations; (ii) equal to that of all other Senior Subordinate Obligations; and (iii) senior to that of all other Subordinate Obligations.

"Separately Secured Financing" means evidences of indebtedness or other financial instruments issued or entered into by the Corporation under a resolution, indenture of trust or other financing document establishing another and separate trust estate, which are described in the Resolutions.

"Series" means all of the Obligations authenticated and delivered on original issuance in any subsequent simultaneous transaction, pursuant to the same Series Resolution and designated as a Series in such Series Resolution regardless of variations in maturity, interest rate or other provisions, and any Obligations thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Obligations as provided in the Resolutions.

"Series 1997-A Bond Resolution" means the Series 1997-A Bond Resolution adopted by the Corporation on May 9, 1997.

"Series 1997-B Bond Resolution" means the Series 1997-B Bond Resolution adopted by the Corporation on May 9, 1997.

"Series Resolution" means any instrument supplemental to or amendatory of the Resolutions adopted by the Corporation in accordance with the provisions of the Resolutions.

"Servicer" means, with reference to any Series of Obligations, (i) the Corporation or any successor, subsidiary or other affiliated entity of the Corporation succeeding to such function; and (ii) such other entity as may be appointed by the Corporation in accordance with any Servicing Agreement.

"Servicing Agreement" means, with respect to any Series of Obligations, any agreement providing for the servicing of Loans financed through application of the proceeds of such Series.

"Student Loan" means an obligation representing advances of money to, or for the benefit of, a student evidenced by one or more promissory notes or otherwise evidenced in such manner as may be described by a Certificate of an Authorized Officer to the Trustee: (A) which are originated pursuant to the Higher Education Act: (i) the holder of which is eligible (in the case of loans originated pursuant to programs qualifying therefor) for special allowance payments and (in the case of loans originated pursuant to programs qualifying therefor) for interest subsidy payments as provided by the Higher Education Act; (ii) the payment of principal of and interest on which is guaranteed or insured by a Guaranty Agency and reinsured as to the principal amount thereof and interest thereon by the Secretary of Education in accordance with the requirements of the Higher Education Act, or insured as to principal amount and interest directly by the Secretary of Education; (iii) which are originated in accordance with Applicable Law; and (iv) which contain terms in accordance with those required by the Higher Education Act and

the applicable Guaranty Agency requirements or (B) which are originated under such other program as may be described by a Certificate of an Authorized Officer to the Trustee accompanied by a Rating Affirmation and originated in accordance with Applicable Law.

"Subordinate Obligations" means any Class of Obligations issued pursuant to the Resolutions in accordance with the requirements hereof and having a claim as to payment from the Trust Estate that is equal to that of all other Subordinate Obligations of the same Class and subordinate to that of all Senior Obligations. Multiple Classes of Subordinate Obligations may be issued in accordance with the requirements of the Resolutions having different priorities of claim as to payment from the Trust Estate.

"Subseries" means: (i) such portion of the Obligations authenticated and delivered on original issuance as part of a single Series as may be so designated in the Series Resolution authorizing such Series regardless of variations in maturity, interest rate or other provisions; and (ii) any Obligations thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) Obligations of such Subseries as provided in the Resolutions.

"Swap" means any financial arrangement: (i) that is entered into by the Corporation with an entity that is a Swap Provider at the time the arrangement is entered into; (ii) (a) which provides that the Corporation shall pay to such entity an amount based on the interest accruing at a fixed rate on the Notional Amount equal to all or part of the outstanding principal amount of a Series of Obligations issued under the Resolutions, and that such entity shall pay to the order of the Corporation an amount based on the interest accruing on the Notional Amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such Series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii) (c) hereof, with respect thereto) shall pay to the other the net amount (Swap Payment or Swap Receipt) due under such arrangement; (b) which provides that the Corporation shall pay to such entity an amount based on the interest accruing on the Notional Amount equal to all or part of the outstanding principal amount of a Series of Obligations issued under the Resolutions, at a variable rate of interest computed according to a formula set forth in such arrangement and that such entity shall pay to the order of the Corporation an amount based on the interest accruing at a fixed rate on the Notional Amount (which need not be the same as the actual rate of interest borne by such Series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii) (c) hereof, with respect thereto) shall pay to the other the net amount (Swap Payment or Swap Receipt) due under such arrangement; or (c) which is included as part of or covered by the financial transaction described in (ii) (a) or (ii) (b) above or is separately executed and which is a cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction agreement, other similar transaction (however designated) or any combination thereof or any option with respect thereto executed by the Corporation for the purpose of moderating interest rate fluctuations or otherwise pursuant to the Act; and (iii) which has been designated by a Certificate of an Authorized Officer to the Trustee and authenticated or otherwise registered by the Trustee under the Resolutions as a Swap with respect to a Series of Obligations. "Swap" shall also include any such financial arrangement described in clauses (ii) and (iii) above entered into by the Corporation with a Swap Provider as a replacement of a Swap that has been terminated and which has been so designated by a Certificate of an Authorized Officer to the Trustee with respect to a Series of Obligations.

"Swap Facility" means an insurance policy, surety bond, letter of credit or other credit enhancement with respect to a Swap or any similar facility entered into for the same or similar purposes and may include Investment Securities properly pledged to the Corporation under the Resolutions pursuant to the Swap Facility or by the Swap Provider, in each case satisfying or meeting the rating standards for investments of the Debt Service Reserve Account, which is delivered to the Trustee along with a Certificate of an Authorized Officer to which a Rating Affirmation is attached. Payments by the Corporation under a Swap Facility related to a Swap shall be deemed Swap Payments under the Resolutions and shall not be deemed Reimbursement Obligations and payments to the Corporation under a Swap Facility related to a Swap shall be deemed Swap Receipts. Payment by the Corporation

under a Swap Facility applicable to any fees, expenses or similar other charges or obligations thereunder shall be a Cost of Issuance or a Program Expense.

"Swap Payment" means the net amount required to be paid in respect of interest by the Corporation under a Swap that is applicable to the interest rate exchange effected thereunder, but not (a) any fees, expenses or similar other charges or obligations thereunder (which shall be either Program Expenses or Costs of Issuance) or (b) any Termination Payment or other payments by the Corporation on account of termination of the Swap (which shall be Other Obligations).

"Swap Provider" means a financial institution: (i) whose long term debt obligations are rated at least as high by at least two nationally recognized rating agencies as the greater of (a) the rating on the related Class of Bonds or Notes authorized by the applicable Series Resolution authorizing such Swap and (b) "Aa"; (ii) whose obligations under the Swap are fully covered by a Swap Facility and achieve the ratings described in (i); or (iii) whose obligations under the Swap are secured by a pledge of Defeasance Securities in amounts sufficient to achieve the ratings described in (i) hereof.

"Swap Receipt" means that net amount required to be paid to the Corporation under a Swap, but shall not include any Termination Receipt.

"Tax-Exempt" means, with respect to any Series or Subseries of Obligations, that interest received by Bondholders is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code, as evidenced by a Counsel's Opinion addressed to the Corporation.

"Termination Payment" means with respect to a Swap an amount required to be paid by the Corporation to the Swap Provider or related Swap Facility as a result of the termination of the Swap or pursuant to a Swap Facility; provided that any payments by the Corporation on account of termination of a Swap shall be deemed Other Obligations under the Resolutions.

"Termination Receipt" means with respect to a Swap an amount required to be paid to the Corporation by the Swap Provider or related Swap Facility as a result of the termination of the Swap.

"Trust Estate" means all property pledged under the Resolutions in trust for the benefit of the Owners of the Obligations pursuant to the granting clauses of the Resolutions or pursuant to any Series Resolution.

Contract with Holder. The provisions of the Resolutions constitute a contract between the Corporation and the Owners of the Obligations, and the pledges and assignments made in the Resolutions and the provisions, covenants and agreements set forth therein are for the equal benefit, protection and security of the Owners of any and all of such Obligations, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof, except as expressly provided in the Resolutions.

Pledge Effected by the Resolutions. To secure the payment of principal of and interest on the Obligations, there is pledged, subject to the provisions of the Resolutions permitting the application thereof, for or to the purposes and on the terms and conditions set forth in the Resolutions, the Trust Estate, including the following: (i) all moneys, including Obligation proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) any grant or contributions which may be received by the Corporation from any department, agency or instrumentality of the United States,

or from any person; (v) all other Revenues; (vi) all rights of the Corporation with respect to any Origination Agreement or Servicing Agreement; all rights of the Corporation under any Swap or Swap Facility and all direct and indirect proceeds, of any of the assets described in (i) through (vii) above. The pledge shall be valid and binding from and after the date of the Resolutions. In accordance with the statutory lien provisions of the Act, the Trust Estate so pledged shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

Nature of Security for Obligations. (A) The Resolutions create an issue of Obligations of the Corporation and creates a continuing pledge and lien to secure the full and final payment of the principal of and interest on such Obligations. The Bonds, Notes, Reimbursement Obligations, Swap Payments and any other obligation of the Corporation arising under any Bond, Note, Obligation Facility or Swap shall be special and limited obligations of the Corporation, payable solely from the Trust Estate without recourse against other assets of the Corporation. The Bonds, Notes, Reimbursement Obligations, Swap Payments and any other obligation of the Corporation arising under any Bond, Note, Obligation Facility or Swap shall not be deemed to constitute a debt or liability of the Commonwealth or of any political subdivision thereof or a pledge of the faith and credit of the Commonwealth or of any such political subdivision other than the Corporation.

(B) The pledges and assignments made and the provisions, covenants and agreements set forth in the Resolutions to be performed by or on behalf of the Corporation shall be for the equal benefit, protection and security of the Owners of any and all of such Obligations, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof, except as expressly provided in the Resolutions.

(C) (i) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Senior Obligations by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority shall be senior to that of all Subordinate Obligations;

(ii) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Senior Subordinate Obligations by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority shall be subordinate to all Senior Obligations and senior to that of all Subordinate Obligations other than Senior Subordinate Obligations;

(iii) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Subordinate Obligations, other than Senior Subordinate Obligations, having the same priority by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority: (a) shall be subordinate: (I) to all Senior Obligations; (II) to all Senior Subordinate Obligations; (III) to all Subordinate Obligations expressly identified in such Series Resolution or, if not addressed in such Series Resolution, in a subsequent Series Resolution as senior to such Class; and (IV) to all Obligations having the same priority of claim as to payment as do Subordinate Obligations so expressly identified; and (b) shall be senior: (I) to all Subordinate Obligations expressly identified in such Series Resolution or, if not addressed in such Series Resolution, in a subsequent Series Resolution as subordinate to such Class; and (II) to all Obligations having the same priority of claim as to payment as do Subordinate Obligations so expressly identified;

(iv) Subject to the preceding paragraphs (A) and (B), Reimbursement Obligations and Swap Payments arising in connection with any Class of Bonds or Notes shall have the same priority of claim as to payment under the Resolutions as does the applicable Class of Bonds or Notes;

(v) Subject to the preceding paragraphs (A) and (B), Other Obligations shall have a priority of claim as to payment, under the Resolutions which shall be either the same as or subordinate to the

Reimbursement Obligations or Swap Payments in connection with which such Other Obligations arise as specified in the Series Resolution authorizing the applicable Class of Bonds or Notes; and

(vi) No Owner of Obligations shall have any claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the Resolutions and the recipients of any amount so distributed shall in no event be required to refund such amount.

Establishment of Accounts. (A) The Resolutions create the following special trust accounts to be held by the Trustee:

- (1) Loan Account;
- (2) Debt Service Reserve Account;
- (3) Revenue Account;
- (4) Operating Account;
- (5) Earnings Account; and
- (6) Rebate Account.

(B) The Trustee shall establish and create such separate funds within any of the Accounts established in subsection (A) of this Section as the Corporation may from time to time direct by delivery of a Certificate of an Authorized Officer or, subject to the written direction of the Corporation as the Trustee may deem advisable to facilitate the administration of the Trust Estate. Each such fund established within any Account shall be treated separately for record keeping and reporting purposes but all such funds established within any Account, other than the Rebate Account, shall constitute one undivided Account for all other purposes of the Resolutions except as the Corporation may direct by delivery of a Certificate of an Authorized Officer. Each such fund established within the Rebate Account with respect to any Series or Subseries of Obligations shall be treated as the sole fund available in the Rebate Account with respect to such Series or Subseries while: (i) any amount remains credited to such fund; and (ii) any obligation of the Corporation with respect to amounts in the Earnings Account and the Rebate Account remain unpaid or unperformed with respect to such Series or Subseries; provided, that the Corporation may from time to time direct the Trustee to effect transfers between funds established in the Rebate Account by delivery of a Certificate of an Authorized Officer accompanied by a Counsel's Opinion to the effect that such transfer would not violate the provisions of the Resolutions relating to Tax-Exempt Obligations. The Trustee may establish and create such separate special trust accounts in addition to the Accounts established in subsection (A) of this Section as the Trustee may deem advisable to facilitate the transfer of cash, Investment Securities or Loans into or out of the Trust Estate or between Accounts established in subsection (A) of this Section. Each special trust account so established shall constitute a part of the Trust Estate and any asset deposited to any special trust account so established shall constitute an asset of the Trust Estate and, with respect to assets transferred from an Account established in subsection (A) of this Section to a special trust account so established, an asset of the Account from which such asset was so transferred for all purposes of the Resolutions.

(C) All moneys and securities deposited in the Accounts and held by the Trustee pursuant to the Resolutions shall be held in trust and applied only in accordance with the provisions of the Resolutions.

Loan Account. There shall be deposited to the credit of the Loan Account a portion of the proceeds of each Series other than any Series of Refunding Obligations. Amounts so credited which represent original proceeds of a Series of Obligations and which are deposited thereto for application to the financing and refinancing of Student Loans described in clause (A) of the definition thereof or pursuant to any program described in clause (B) of such

definition shall be so applied prior to the application of amounts deposited to the credit of the Loan Account for such application from the proceeds of any subsequently issued Series of Obligations or from any other source.

Amounts in the Loan Account shall be expended only: (a) to finance and refinance Student Loans, including the payment of any origination fees, origination discounts, transfer fees and acquisition premiums and to pay Costs of Issuance; (b) to apply to the redemption of Obligations in accordance with the Resolutions; (c) to provide amounts for transfer to the Revenue Account in accordance with the Resolutions; and (d) to provide amounts for transfer to the Operating Account in accordance with the Resolutions. All Loans financed or refinanced by application of amounts in the Loan Account shall be credited to the Loan Account, notwithstanding that the notes or other evidence of such Loans shall be held by the Servicer.

The Resolutions provide that the Corporation may at any time direct the Trustee in writing to apply amounts in the Loan Account to the redemption, purchase or retirement of any Obligations in accordance with their terms and the provisions thereof, but only if there is delivered to the Trustee, along with such written direction, a Certificate of an Authorized Officer stating that, in the judgment of the Corporation, such transfer or application would not materially and adversely affect the security pledged to the payment of any Obligations remaining Outstanding. The Resolutions further provide, with respect to the Series 1997-A Bonds and the Series 1997-B Bonds, that all amounts credited to the Loan Account upon issuance of the Series 1997-A Bonds and the Series 1997-B Bonds, respectively, as original proceeds of the Series 1997-A Bonds and the Series 1997-B Bonds which have not been applied to finance Student Loans on or before May 1, 1999, or such later date as may be established by a Certificate of an Authorized Officer accompanied by a Rating Affirmation, shall be applied to the redemption of the Series 1997-A Bonds and the Series 1997-B Bonds, respectively.

The Resolutions provide that, in the event that amounts available in the Revenue Account, along with all other amounts available for transfer to the Revenue Account from sources other than the Debt Service Reserve Account and the Loan Account, shall at any time be insufficient to fund payments therefrom in accordance with Paragraphs FIRST, SECOND, THIRD or FOURTH included under "— SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS — Revenue Account" in this APPENDIX B, the Trustee shall transfer the amount necessary to fund such payment to the Revenue Account, but only to the extent of cash then credited to the Loan Account without liquidating Loans credited thereto.

The Resolutions provide that, in the event that amounts available in the Revenue Account, along with all other amounts available for transfer to the Revenue Account from sources other than the Loan Account, shall at any time be insufficient to fund payments therefrom in accordance with Paragraphs FIRST, SECOND, THIRD or FOURTH included under "— SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS — Revenue Account" in this APPENDIX B, the Trustee shall transfer the amount necessary to fund such payment to the Revenue Account and shall liquidate Loans to the extent necessary to effect such transfer.

The Resolutions provide that, subject to any provision contained in a Series Resolution limiting the payment of Program Expenses, in the event that the amounts available in the Operating Account, along with all other amounts available for transfer to the Operating Account from sources other than the Loan Account, shall at any time be insufficient to pay estimated Program Expenses then unpaid or becoming payable during the applicable period beginning on the next preceding Interest Payment Date or during the applicable period beginning on the date of issuance, as estimated by the Corporation and as set forth in the Certificate of an Authorized Officer of the Corporation, the Corporation shall direct the Trustee to and the Trustee, upon receipt of such Certificate, shall transfer the amount set forth in such Certificate to the Operating Account.

The Series 1997-A Bond Resolution and the Series 1997-B Bond Resolution limit the annual amount expended from the Trust Estate to pay certain Program Expenses to 1.65% of the principal balance of Loans credited to the Loan Account or such other percentage as may be established by a Certificate of an Authorized Officer of the Corporation accompanied by a Rating Affirmation.

Debt Service Reserve Account. Except as may be set forth in any Series Resolution, in the event that amounts available in the Revenue Account are insufficient, subsequent to any transfer thereto from the Loan Account as set forth in the Resolutions, to fund certain payments therefrom, including the principal of, or the interest on, the Senior Obligations or the Subordinate Obligations, the Trustee shall transfer the amount necessary to fund such payment from the Debt Service Reserve Account to the Revenue Account.

In the event that amounts in the Debt Service Reserve Account shall at any time exceed the aggregate requirement therefor established by each applicable Series Resolution, taking into account all transfers and payments of principal to be effected on the date of calculation, such excess shall be transferred, upon the written direction of the Corporation, to the Revenue Account or the Loan Account or, in the absence of such direction, to the Revenue Account.

Revenue Account. Except as otherwise provided by a Series Resolution, all Revenues are to be deposited promptly with the Trustee in the Revenue Account. The Trustee is to apply, at the direction of the Corporation, all moneys then deposited therein as follows and in the following order of priority:

- FIRST:** On any Business Day, to apply to the payment to a borrower or to the federal government of amounts required pursuant to the Applicable Law with respect to rebates of amounts paid by borrowers, to origination fees and to insurance or to guarantee fees, as established by delivery of a Certificate of an Authorized Officer;
- SECOND:** With respect to any Tax-Exempt Series or Subseries of Obligations, on any Business Day, to transfer to the credit of the Rebate Account, to the extent of funds available, an amount sufficient, along with the other amounts: (i) credited thereto, subsequent to all transfers or credits thereto on the preceding Business Day; (ii) credited thereto on such Business Day as earnings upon the Rebate Account; or (iii) transferred thereto on such Business Day from the Earnings Account, to fund required payments from the Rebate Account on such date;
- THIRD:** With respect to any Tax-Exempt Series or Subseries of Obligations, on any Business Day, to apply in accordance with the requirements of the Arbitrage Certificate to assure compliance with the Resolutions;
- FOURTH:** On any Interest Payment Date, other date upon which principal of Obligations is payable or other date upon which a Reimbursement Obligation or Swap Payment is payable, and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payments in the following order of priority: (i) all interest, Reimbursement Obligations in respect of interest and Swap Payments on Senior Obligations due on such date, and all principal and Reimbursement Obligations in respect of Senior Obligations due on such date (other than pursuant to optional redemption), on a pro rata basis within such Class; (ii) to the credit of the Debt Service Reserve Account, the amount necessary to cause the balance therein to equal the aggregate requirement therefor established in each Series Resolution; and (iii) with respect to each successive Class of Subordinate Obligations having the next most senior priority as to payment hereunder, all interest, Reimbursement Obligations in respect of interest and Swap Payments due on such date and all principal and Reimbursement Obligations in respect of principal due on such date (other than pursuant to optional redemption), on a pro rata basis within such respective Class;
- FIFTH:** On the last Business Day of each calendar quarter and subsequent to the foregoing applications, to transfer to the credit of the Operating Account, to the extent of amounts

available, an amount sufficient, along with all other amounts available therefor, to pay Program Expenses then unpaid and payable or becoming payable during the next quarterly period;

SIXTH: On any Interest Payment Date and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payment of any Carry-over Amount payable pursuant to any Series Resolution, with respect to each successive Class of Senior and Subordinate Obligations, in descending order of priority as to payment hereunder, on a pro rata basis within such respective Class;

SEVENTH: On any date upon which Obligations are payable pursuant to redemption, and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payments in the following order of priority: (i) all principal and Reimbursement Obligations in respect of principal and of Senior Obligations due on such date pursuant to optional redemption along with any associated premium, on a pro rata basis within such Class; and (ii) all principal and Reimbursement Obligations in respect of principal of each successive Class of Subordinate Obligations having the next most senior priority as to payment hereunder due on such date pursuant to optional redemption, along with any associated premium, on a pro rata basis within such respective Class;

EIGHTH: On any Interest Payment Date and subsequent to the foregoing applications, if so directed by a Certificate of an Authorized Officer, to transfer to the Paying Agent the amount so certified for application to the redemption of Obligations as directed in such Certificate in accordance with their terms and the provisions of the Resolutions;

NINTH: On any Interest Payment Date and subsequent to the foregoing applications, if: (i) so directed by a Certificate of an Authorized Officer stating the amount of Excess Coverage which would otherwise exist, after giving effect to all other transfers made or to be made pursuant hereto on such date; and (ii) a Cash Flow Projection shall have been delivered to each Rating Agency, with a copy to the Trustee, which Cash Flow Projection shall be prepared assuming such transfer, to transfer in accordance with a Certificate of an Authorized Officer, an amount not in excess of the amount of Excess Coverage so certified free and clear of the lien of the Resolutions; and

TENTH: On any Interest Payment Date which occurs prior to the end of any applicable Recycling Period and subsequent to the foregoing applications, to transfer to the credit of the Loan Account an amount established by delivery of a Certificate of an Authorized Officer evidencing that the aggregate amount of funds which the Corporation then projects that it might apply, if credited to the Loan Account, to finance Student Loans during the then current Fiscal Year exceeds the amount credited to the Loan Account and available for such purpose by at least such amount.

Operating Account. Amounts on deposit in the Operating Account shall be used only to pay Program Expenses as due and may be released to the Corporation for such purpose on the last Business Day of any calendar month, or on such other monthly dates as may be requested by the Corporation from time to time in writing with respect to any Series of Obligations in an amount not exceeding the estimated amount of Program Expenses then unpaid or becoming payable during the next succeeding calendar month, as established by delivery of a Certificate of an Authorized Officer setting forth such amount; provided, that the portion of such amounts attributable to any Series to which an Obligation Facility applies shall be paid to the applicable Obligation Facility Provider upon the written direction of such applicable Obligation Facility Provider received by the Trustee during such period subsequent to an Event of Default and prior to an Obligation Facility Provider Default; and, further provided, that

the aggregate amount so released or paid within any calendar quarter shall not exceed the assumption therefor reflected in the then current Cash Flow Projection.

Earnings Account. With respect to the Series 1997-B Bonds and any other Tax-Exempt Series or Subseries of Obligations, there shall be credited to the Earnings Account all amounts received in any Account, other than the Rebate Account, as interest earnings or net gain on disposition of investments, other than Loans, in excess of the Obligation Yield, but only if such deposit is required by the applicable Arbitrage Certificate.

With respect to the Series 1997-B Bonds and any other Tax-Exempt Series or Subseries of Obligations, but only if such deposit is required by the applicable Arbitrage Certificate, on the first Business Day following each computation period, amounts in the Earnings Account shall be deposited into the Rebate Account such that the amount held in the Rebate Account after such deposit is equal to the rebate amount calculated as of the last day of the computation period pursuant to written instructions from the Corporation. Following such transfers, any amounts on deposit in the Earnings Account shall be deposited to the Revenue Account.

Rebate Account. Upon receipt of written instructions from an Authorized Officer, amounts with respect to rebate liability which are transferred from the Earnings Account if applicable, or from the Revenue Account, to the Rebate Account shall be rebated to the United States at the times and in the amounts set forth in the Resolutions.

Investment of Certain Funds. Subject to the right of the Corporation to direct in writing the investment or deposit of funds in accordance with the Resolutions, moneys in any Account except as provided in the Resolutions shall be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Securities, with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Securities purchased as an investment of moneys in any Account held by the Trustee under the Resolutions shall be deemed at all times to be a part of such Account, but with respect to any Tax-Exempt Series or Subseries of Obligations, the income or interest earned and gains realized in excess of losses suffered by an Account other than the Rebate Account due to the investment thereof shall be deposited in the Earnings Account, but only if such deposit is required by the applicable Arbitrage Certificate or, subject to compliance with certain requirements, shall be deposited in the Revenue Account or credited as Revenues to the Revenue Account from time to time and reinvested, in accordance with the Resolutions.

Valuation of Investments. (A) In computing the amount in any Account, obligations other than Loans purchased as an investment of moneys therein shall be valued at amortized value, unless otherwise provided in the applicable Series Resolution provided, however, that Investment Securities credited to the Debt Service Reserve Account shall be valued at the then current market value as determined by the Trustee as of the last day of each month. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Loans shall be valued at par plus: (i) accrued interest; and (ii) with respect to Loans described in clause (A) of the definition thereof in Section 1.1, accrued but unpaid federal obligations, if any, other than interest, applicable to such Loans, in each case as evidenced by the Certificate of an Authorized Officer.

Loan Program. The Corporation shall, from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Resolutions and sound banking practices and principles: (i) do all such acts and things necessary to receive and collect Revenues sufficient to pay the expenses of the Loan

Program; and (ii) diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to protect its rights with respect to, to maintain any insurance on and to enforce all terms, covenants and conditions of Loans.

For so long as any Obligations are Outstanding, the Corporation shall administer the Loan Program in such manner as to ensure that the Loan Program and the Loans will benefit, to the optimum extent, from its contractual rights relative to all Loans.

The Corporation shall, either directly, or through its Servicers, diligently collect all principal and interest payments on all Loans held under the Resolutions, and all applicable interest subsidy payments, surety, insurance or guarantee claims and special allowance payments; subject, however, to the reserved rights of the Corporation: (i) to implement programs which have the effect of reducing Student Loan revenue received for purposes of reducing overall costs of administering such Student Loans or of benefitting the borrowers; and (ii) subsequent to delivery to the Trustee of a Certificate of an Authorized Officer to which is attached a Rating Affirmation and, if any Tax-Exempt Series or Subseries of Obligations is then Outstanding, a Counsel's Opinion to the effect that the capacity of the Corporation to comply with the Tax Covenants set forth in the Resolutions with respect to such Series or Subseries would not be materially reduced solely as a result thereof, to finance and refinance Student Loans which are affected by such programs by application of amounts in the Loan Account. The Corporation shall, or through its Servicers shall, cause the filing and assignment of such claims within the time prescribed by Applicable Law. The Corporation will remain, with respect to such Loans, in material compliance with all Applicable Law which applies to the Loan Program and to such Loans and will take no action to jeopardize the right to receive any federal payments with respect to the Loans described in clause (A) of the definition of Student Loans to which such payments may be applicable.

Except as otherwise provided in the Resolutions, the Corporation may at any time sell, assign, transfer or otherwise dispose of a Loan credited to the Loan Account at a price:

(i) in excess of the principal amount thereof (plus accrued borrower interest) or equal to or in excess of the purchase price paid by the Corporation for such Loan (less principal amounts received with respect to such Loan);

(ii) equal to the principal amount thereof (plus accrued borrower interest), when necessary to fund a transfer pursuant to the Resolutions; or

(iii) lower than the principal amount thereof (plus accrued borrower interest) when the Corporation delivers to the Trustee and each Obligation Facility Provider, as required, a Certificate of an Authorized Officer stating that:

(a) the Corporation reasonably believes that the Revenues expected to be received (after giving effect to such sale, assignment, transfer or other disposition) would be at least equal to the Revenues expected to be received assuming no such sale, assignment, transfer or other disposition occurred, or

(b) the Corporation shall remain able to pay debt service on the Obligations on a timely basis (after giving effect to such sale, assignment, transfer or other disposition) whereas it would not have been able to pay on a timely basis if it had not sold, assigned, transferred or disposed of the Loans at such discounted amount, or

(c) the amount on deposit in the Accounts (excluding the Earnings Account, the Rebate Account and the Operating Account), including the Loans therein (valued at par plus accrued interest and accrued special allowance payments, if any), and the then current value of the cash and Investment Securities in such Accounts (after giving effect to such sale, assignment,

transfer or other disposition) will be at least equal to the principal amount of the Outstanding Obligations plus accrued interest, or

(d) the amount for which the Loan is being sold, assigned, transferred or disposed of is equal to the purchase price paid by the Corporation for such Loan (less principal amounts received with respect to such Loan).

Under all circumstances, the Corporation shall sell Loans if necessary to prevent the occurrence of an Event of Default.

Power to Issue Obligations and Pledge Revenues, Funds and Other Property. The Corporation is duly authorized under all applicable laws to authorize and issue the Obligations and to enter into, execute and deliver the Resolutions and to pledge the assets and revenues purported to be pledged thereby in the manner and to the extent therein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created thereby, and all corporate or other action on the part of the Corporation to that end has been and will be duly and validly taken. The Obligations are and will be the valid and legally enforceable obligations of the Corporation in accordance with their respective terms and the terms of the Resolutions. The provisions of the Resolutions are and will be a valid and legally enforceable obligation of the Corporation in accordance with its terms. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under the Resolutions, and all the rights of the Holders under the Resolutions against all claims and demands of all persons whomsoever.

Further Assurance. At any and all times the Corporation shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which the Corporation may become bound to pledge or assign.

Tax Covenants. With respect to the Series 1997-B Bonds and any other Tax-Exempt Series or Subseries of Obligations, the Corporation shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Obligations shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation. The Corporation shall not permit at any time or times any of the proceeds of the Series 1997-B Bonds and any other Tax-Exempt Series or Subseries of Obligations or any other funds of the Corporation to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any of the Series 1997-B Bonds or any of such other Tax-Exempt Series or Subseries of Obligations to be an "arbitrage bond" as defined in the Code.

Series Resolutions Effective Upon Filing with the Trustee. For any one or more of the following purposes and at any time or from time to time, a Series Resolution of the Corporation may be adopted, which, upon the filing with the Trustee and each Obligation Facility Provider applicable to an affected Series of a copy thereof so identified by a Certificate of an Authorized Officer, shall be fully effective in accordance with its terms upon the fifteenth day subsequent to such filing, or with respect to any Series Resolution exclusively for the purpose described in Paragraph (5) of this Section shall be fully effective as provided in such Series Resolution; provided, that the written consent of any affected Obligation Facility Provider to any such Series Resolution, other than a Series Resolution described in Paragraph (5), (6) or (7) (which shall require no consent except such consent as may be required by a Series Resolution authorizing any Series of Obligations) has been received by the Trustee on or prior to such date, or else upon receipt of such consent:

- (1) to add to the Resolutions other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Resolutions as theretofore in effect; or

- (2) to add to the Resolutions other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Resolutions as theretofore in effect; or
- (3) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Resolutions, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolutions; or
- (4) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolutions, of the Revenues or of any other revenues or assets; or
- (5) to authorize the issuance of one or more Series of Obligations and to prescribe the terms and conditions upon which such Obligations may be issued; or
- (6) to modify any provision of the Resolutions if such modification is applicable only to Obligations to be issued subsequent to the effective date of such Series Resolution and if, in Counsel's Opinion, such modification does not materially affect any Outstanding Series; or
- (7) to implement any change in the corporate structure of the Corporation subsequent to the date hereof which results in the assignment of the duties of the Corporation hereunder to one or more successor, subsidiary or affiliated entities.

Series Resolutions Effective Upon Consent of Trustee. (A) For any one or more of the following purposes, a Series Resolution may be adopted, which, upon (i) the filing with the Trustee and each Obligation Facility Provider applicable to an affected Series of a copy thereof certified by a Authorized Officer, and (ii) the filing with the Trustee, each applicable Obligation Facility Provider and the Corporation of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms upon the fifteenth day subsequent to such filing; provided, that the written consent of each applicable Obligation Facility Provider to any such Series Resolution is received by the Trustee on or prior to such date, or else upon receipt of such consent:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolutions; or
- (2) to insert such provisions clarifying matters or questions arising under the Resolutions as are necessary or desirable and are not contrary to or inconsistent with the Resolutions as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Loans; or
- (4) to provide for the orderly sale or remarketing of Obligations.

(B) Any such Series Resolution may also contain one or more of the purposes specified in the section entitled "Series Resolutions Effective Upon Filing With the Trustee" above, and in that event, the consent of the Trustee shall be required only to those provisions of such Series Resolution as shall contain one or more of the purposes set forth in subsection (A) above.

Series Resolutions Effective Upon Consent of Holders. A Series Resolution may be adopted subject to consent by Holders in accordance with and subject to the Resolutions and each Obligation Facility Provider. Any such Series Resolution shall become fully effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer and upon compliance with the Resolutions.

Powers of Amendment. Any modification of or amendment to the Resolutions may be made by a Series Resolution, but only, in the event such Series Resolution shall be pursuant to the Section entitled "Series Resolution Effective upon Consent of Holders", with the written consent given as provided in the Resolutions (i) of the Owners of at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations which are Outstanding at the time such consent is given or (ii) in case less than all of the Most Senior Outstanding Obligations then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations so affected and Outstanding at the time such consent is given; provided, that consent of the applicable Obligation Facility Provider shall be deemed to establish consent of at least fifty-one percent (51%) of the Owners of a Series. If any such modification or amendment will not take effect so long as any Most Senior Outstanding Obligations of a specified maturity remain Outstanding, however, the consent of the Owners of such Most Senior Outstanding Obligations shall not be required and such Most Senior Outstanding Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Most Senior Outstanding Obligations under the Resolutions. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the Owner of such Obligation or shall reduce the percentages or otherwise affect the Classes of Obligations, the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Obligations of any particular maturity would be affected by any modification or amendment of the Resolutions and any such determination shall be binding and conclusive on the Corporation and all Owners of Obligations. No such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Holders.

Consent of Holders. (A) A copy of any Series Resolution making a modification or amendment which is not permitted by the Resolutions (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request for their consent thereto, shall be mailed by the Corporation to each applicable Obligation Facility Provider, prior to an Obligation Facility Provider Default, or to the Owner of each Most Senior Outstanding Obligation after an Obligation Facility Provider Default. Such Series Resolution shall not be effective unless (i) there shall have been filed with the Trustee (a) the written consents specified above in "Powers of Amendment" and (b) a Counsel's Opinion stating that such Series Resolution has been duly and lawfully adopted by the Corporation in accordance with the provisions of the Resolutions, is authorized or permitted by the Resolutions and is valid and binding upon the Corporation, (ii) published notice shall have been given as hereinafter provided in the Resolutions and (iii) the written consent of each applicable Obligation Facility Provider has been received by the Trustee.

(B) Notice stating in substance that the Series Resolution has been consented to by the Owners of the required percentages of Most Senior Outstanding Obligations and will, subject to receipt of consent by each applicable Obligation Facility Provider, be effective as provided in the Resolutions, shall be given to Holders by the Corporation: (i) either by publication in not less than two newspapers or financial journals printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, one of which is of general circulation in the City of Louisville, Kentucky and one of which is of general circulation in the Borough of Manhattan, City and State of New York or by distribution by electronic medium devoted to matters affecting the public market for obligations of Commonwealth and local governments and their instrumentalities and deposit with a municipal bond secondary market disclosure repository approved for such purpose by the federal Securities and Exchange Commission or the Municipal Securities Rulemaking Board; and (ii) by mailing such notice to the Holders (but failure to mail such notice shall not prevent such Series Resolution from becoming effective and binding as provided in this Section). Such Series Resolution making such amendment or modification shall be deemed conclusively binding upon the Corporation, the Fiduciaries, the Owners of all Obligations and each applicable Obligation Facility Provider upon its execution and delivery in accordance with the provisions of the Resolutions.

Modifications by Unanimous Consent. The terms and provisions of the Resolutions and the rights and obligations of the Corporation and of the Owners of the Obligations may be modified or amended in any respect upon the adoption and filing by the Corporation of a Series Resolution and the consent of each applicable Obligation Facility Provider and of Owners of all the Obligations then Outstanding, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Holders. No notice of any such modification or amendment to Holders shall be required.

Events of Default. Each of the following events is an "Event of Default" under the Resolutions:

- (1) payment of the principal of or Redemption Price, if any, on any Most Senior Outstanding Obligation shall not be made when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or
- (2) payment of any installment of interest on any Most Senior Outstanding Obligation shall not be made when and as the same shall become due; or
- (3) the Corporation shall fail or refuse to comply with the other provisions of the Resolutions, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Resolutions or in the Obligations, and such failure, refusal or default shall continue for a period of thirty days after written notice thereof by the Trustee, each applicable Obligation Facility Provider or the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding, except that if the Corporation is taking steps to cure the event and the event is curable within a reasonable period of time, such event shall not be an Event of Default; or
- (4) the Corporation shall:
 - (a) admit in writing its inability to pay its debts generally as they become due; or
 - (b) consent to the appointment of a custodian (as that term is defined in the federal Bankruptcy Code) for, or assignment to a custodian of, the whole or any substantial part of the Corporation's property, or fail to cause to be stayed, set aside or vacated within one hundred and twenty (120) days from the date of entry thereof any order or decree entered by a court of competent jurisdiction ordering such appointment or assignment; or
 - (c) commence any proceeding or file a petition under the provisions of the federal Bankruptcy Code for liquidation, reorganization or adjustment of debts, or under any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors or fail to cause to be stayed, set aside or vacated within one hundred and twenty (120) days from the date of entry thereof any order or decree entered by a court of competent jurisdiction pursuant to an involuntary proceeding, whether under federal or state law, providing for liquidation or reorganization of the Corporation or modification or adjustment of the rights of creditors.

Acceleration. If any Event of Default specified in paragraphs (1) or (2) of the definition of "Event of Default" above shall have happened and be continuing, the Trustee may, and upon the written request of the Owners of not less than fifty-one percent (51%) in aggregate principal amount of Most Senior Outstanding Obligations Outstanding shall by notice in writing delivered to the Corporation, declare the principal of and interest accrued on all Obligations then Outstanding immediately due and payable. At any time before such declaration, the Owners of twenty-five percent (25%) in principal amount of the Most Senior Outstanding Obligations Outstanding with, subject

to the provisions of the Resolutions, the prior consent of each applicable Obligation Facility Provider, by written notice to the Corporation and the Trustee, may rescind and annul such direction and its consequences if:

(1) there has been paid to or deposited with the Trustee by or for the account of the Corporation, or provision satisfactory to the Trustee has been made for the payment of, a sum sufficient to pay:

(A) all overdue installments of interest on all Obligations;

(B) the principal of any Obligations which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by the Obligations;

(C) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates borne by the Obligations; and

(D) all sums paid or advanced by the Trustee under the Resolutions, and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and other Fiduciaries;

(2) all Events of Default, other than the non-payment of the principal of and interest on Obligations which have become due solely by such declaration of acceleration, have been cured or waived as provided in the Resolutions.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Other Remedies. (A) Upon the happening and continuance of any Event of Default described in paragraphs (1) or (2) of the definition of "Event of Default" above, the Trustee shall immediately notify the Corporation, each applicable Obligation Facility Provider and each other Fiduciary of the existence of such Event of Default and shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (3) or (4) of the definition of "Event of Default" above, the Corporation shall immediately notify the Trustee and each other Fiduciary and the Trustee may proceed and, upon the written request of the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding or, prior to an Obligation Facility Provider Default of each applicable Obligation Facility Provider, shall proceed, in its own name, to protect and enforce the rights of the Holders and each applicable Obligation Facility Provider by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Holders and each applicable Obligation Facility Provider, including the right to require the Corporation to receive and collect Revenues adequate to carry out the covenants and agreements as to, and the assignment of, the Loans and to require the Corporation to carry out any other covenants or agreements with Holders and to perform its duties as prescribed by law;

(2) by bringing suit upon the Obligations;

(3) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Owners of the Obligations and each applicable Obligation Facility Provider;

(4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Obligations and each applicable Obligation Facility Provider;

(5) by declaring all Obligations due and payable, (but only with the written consent of all Owners of Most Senior Outstanding Obligations, if such Event of Default is the result of nonpayment of the principal of or interest on Subordinate Obligations, and only with the written consent of all Owners of Obligations, if such Event of Default is not the result of nonpayment of the principal of or interest on Obligations) and if all defaults shall be cured, then, with the written consent of the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding and each applicable Obligation Facility Provider, by annulling such declaration and its consequences; or

(6) with, prior to an Obligation Facility Provider Default, the prior written consent of each applicable Obligation Facility Provider in the event that all Obligations are declared due and payable, by selling Loans credited to the Loan Account and Investment Securities.

(B) Except upon the occurrence and during the continuance of an Event of Default, the Corporation expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Resolutions, to keep or dispose of, claim, bring suit upon or to otherwise exercise, enforce or realize upon its rights and interest in and to the Loans and the proceeds and collections therefrom, and neither the Trustee, nor any applicable Obligation Facility Provider, nor any Holder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Priority of Payments After Default. (A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal of or Redemption Price and interest then due on the Obligations, such funds (other than funds held for the payment of principal or premium of or interest on particular Obligations which have theretofore become due at maturity or redemption allocable to each Series affected), and any other amounts received or collected by the Trustee acting pursuant to the Resolutions after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Obligations and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Resolutions, shall be applied to the extent allocable to each affected Series of Obligations as follows:

(1) Unless the principal of all of the Obligations shall have become or have been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of interest, Reimbursement Obligations in respect of interest and Swap Payments on Most Senior Outstanding Obligations then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

SECOND: To the payment to the persons entitled thereto of the unpaid principal and Reimbursement Obligations in respect of principal of Most Senior Outstanding Obligations, along with any associated premium, which shall have become due and if the amounts available shall not be sufficient to pay in full all the Most Senior Outstanding Obligations due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference;

THIRD: With respect to each successive Class of Subordinated Obligations having the next most senior priority as to payment: (A) to the payment to the persons entitled thereto of all installments of interest, Reimbursement Obligations in respect of interest and Swap Payments on Obligations of such Class then due in the order of the maturity of such installments, and, if the

amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference; and (B) to the payment to the persons entitled thereto of the unpaid principal and Reimbursement Obligations in respect of principal of any Obligations of such Class which shall have become due, along with any associated premium, and, if the amounts available shall not be sufficient to pay in full all the Obligations of such Class due, then to the payment thereof ratably, according to the amounts of principal, along with any associated premium, due on such date, to the persons entitled thereto, without any discrimination or preference;

FOURTH: To be held for the payment to the persons entitled thereto as the same shall become due, of the principal or Redemption Price of and interest on the Obligations which may thereafter become due and if the amounts available shall not be sufficient to pay in full all the Obligations due on any date, together with such interest, payment shall be made ratably according to the amount of principal and interest due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Obligations shall have become or have been declared due and payable:

FIRST: to the payment of the principal and interest then due and unpaid upon the Most Senior Outstanding Obligations without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Most Senior Outstanding Obligation over any other Most Senior Outstanding Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference;

SECOND: With respect to each successive Class of Subordinated Obligations having the next most senior priority as to payment, to the payment of the principal and interest then due and unpaid upon the Obligations of such Class without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, of or any Obligation of such Class over any other Obligation of such Class, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Corporation, each applicable Obligation Facility Provider, the Trustee and the Holders shall be restored to their former positions and rights, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceedings had been taken.

Direction of Proceedings by Holders or each applicable Obligation Facility Provider. The Owners of a majority in aggregate principal amount of Most Senior Outstanding Obligations Outstanding then Outstanding or, prior to an Obligation Facility Provider Default, each applicable Obligation Facility Provider, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Resolutions, provided that: (a) such direction shall not be otherwise than in accordance with the provisions of law and of the Resolutions; (b) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Owners of Obligations not taking part in such direction; (c) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and (d) the Trustee may initiate proceedings in Kentucky State court or in federal court located in Kentucky.

Limitation on Rights of Holders. (A) No Owner of any Obligation other than a Most Senior Outstanding Obligation shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under the Resolutions and no Owner of a Most Senior Outstanding Obligation shall have any such right unless such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolutions or for any other remedy hereunder or by law. It is understood and intended that no one or more Owners of the Obligations secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolutions, or to enforce any right under the Resolutions or under law with respect to the Obligations or the Resolutions, except in the manner provided by the Resolutions, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided under the Resolutions and for the benefit of all Owners of the Outstanding Obligations. Nothing contained in the Article of the Resolutions entitled "Defaults and Remedies" shall affect or impair the right of any Holder to enforce the payment of the principal or purchase price of and interest on his Obligations, or the obligation of the Corporation to pay the principal or purchase price of and interest on each Obligation issued under the Resolutions to the Owner thereof at the time and place in said Obligation, if any, expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of the Resolutions, each Owner of any Obligation by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolutions or any Series Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding, or to any suit instituted by any Holder of Most Senior Outstanding Obligations for the enforcement of the payment of any Most Senior Outstanding Obligation on or after the respective due date thereof expressed in such Obligation.

Appointment of Successor Trustee. (A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Corporation covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made within forty-five (45) days after the Trustee shall have given to the Corporation written notice of its resignation as Trustee, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, each applicable Obligation Facility Provider may appoint a successor Trustee or any of the Trustee, the Owner of any Obligation or each applicable Obligation Facility Provider may apply to any court of competent jurisdiction to appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of the Resolutions shall be a corporation organized under the laws of the United States or of any state which is authorized to exercise trust powers and is subject to supervision or examination by federal or state authorities, having a capital, surplus and undivided profits aggregating at least \$75,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolutions and shall be an Eligible Lender.

Defeasance. (A) If the Corporation shall pay or cause to be paid to the Owners of the Obligations, or of the Obligations of any Series or any Subseries, or of any maturity within a Series or Subseries, the principal and interest to become due thereon, at the times and in the manner stipulated therein and in the Resolutions, and all obligations of the Corporation thereunder with respect to the Obligations or to the Obligations of such Series or Subseries, or to any maturity within a Series or Subseries, as applicable, with respect to the fees and expenses of or reimbursement of each applicable Obligation Facility Provider, with respect to the fees and expenses of each Fiduciary and with respect to certain requirements applicable to the Series 1997-B Bonds and any other Tax-Exempt Obligations, have been paid or otherwise performed or the payment or performance thereof has otherwise been provided for to the satisfaction of the Trustee and each applicable Obligation Facility Provider, then the pledge of any Revenues and other moneys, securities, funds and property constituting a part of the Trust Estate and all other rights granted hereby shall be discharged and satisfied with respect to the Obligations or to the Obligations of such Series or Subseries, or to any such maturity, as applicable. In such event, the Trustee shall, upon the written request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to the Resolutions which are not required for the payment of Obligations not theretofore surrendered for such payment. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Obligations, or of the Obligations of any Series or Subseries, or of any maturity within a Series or Subseries, the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolutions, such Obligations shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Corporation to the Owners of such Obligations shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Obligations or interest installments for the payment of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Corporation of funds for such payment or otherwise) shall, at the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. All Obligations shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to it irrevocable written instructions to give notice as provided in the Resolutions of redemption on said date of such Obligations, (ii) there shall have been deposited with the Trustee either moneys or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on said Obligations on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Obligations are not by their terms subject to redemption within the next succeeding sixty days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable written instructions to give notice to the Owners of such Obligations that the deposit required by (ii) above has been made with the Trustee and that said Obligations are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Obligations. Neither Defeasance Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Obligations; but any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities

maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Obligations on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

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Appendix C

**Audited Financial Statement of the Corporation
for the Year Ended June 30, 1996**

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Report of Independent Accountants

To the Board of Directors
Kentucky Higher Education Student Loan Corporation

We have audited the accompanying balance sheets of Kentucky Higher Education Student Loan Corporation (the Corporation), a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and 1995, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Higher Education Student Loan Corporation as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

 Coopers & Lybrand L.L.P.

Louisville, Kentucky
September 25, 1996

Coopers
& Lybrand

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Kentucky Higher Education Student Loan Corporation
Statement of Revenues, Expenses, and Changes in Retained Earnings

Year Ended June 30, 1996

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Revenues:			
Interest Income:			
Loans	\$ 23,271,343		\$ 23,271,343
Investments	<u>3,724,804</u>	<u>\$ 566,188</u>	<u>4,290,992</u>
	26,996,147	566,188	27,562,335
Special Allowance (note 4)	3,304,468		3,304,468
Commission on Debt Recovery (note 9)		1,954,810	1,954,810
Other	<u> </u>	<u>1,406</u>	<u>1,406</u>
Total Revenues	30,300,615	2,522,404	32,823,019
Expenses:			
Interest on Bonds	17,363,900		17,363,900
Amortization of Loan Purchase Premiums and Origination Costs	141,783		141,783
Amortization of Bond Issuance Costs	505,885		505,885
Credit Facility Fees (note 8)	306,986		306,986
Depreciation and Amortization	267,396	125,387	392,783
Provision for Arbitrage Liabilities (note 7)	1,951,300		1,951,300
Federal Consolidation Fees	196,468		196,468
Personnel and Professional Services	1,801,800	1,417,450	3,219,250
Technical Services (note 9)	1,052,866	191,085	1,243,951
Postage, Printing, and Telecommunications	436,665	147,652	584,317
Miscellaneous Services, Office, and Equipment	209,829	185,828	395,657
Other Expenses	<u>474,558</u>	<u>68,219</u>	<u>542,777</u>
Total Expenses	<u>24,709,436</u>	<u>2,135,621</u>	<u>26,845,057</u>
Income before Operating Transfers	5,591,179	386,783	5,977,962
Transfer (to) from Other Funds:			
Transfer to the Authority (note 9)	<u>(1,500,000)</u>	<u> </u>	<u>(1,500,000)</u>
Net Income	4,091,179	386,783	4,477,962
Retained Earnings at Beginning of Year	<u>32,490,836</u>	<u>9,522,705</u>	<u>42,013,541</u>
Retained Earnings at End of Year	<u>\$36,582,015</u>	<u>\$9,909,488</u>	<u>\$46,491,503</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Statement of Revenues, Expenses, and Changes in Retained Earnings

Year Ended June 30, 1995

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Revenues:			
Interest Income:			
Loans	\$22,127,006		\$22,127,006
Investments	<u>3,999,537</u>	<u>\$ 478,754</u>	<u>4,478,291</u>
	26,126,543	478,754	26,605,297
Special Allowance (note 4)	3,789,342		3,789,342
Commission on Debt Recovery (note 9)	<u></u>	<u>2,158,792</u>	<u>2,158,792</u>
Total Revenues	29,915,885	2,637,546	32,553,431
Expenses:			
Interest on Bonds	18,248,880		18,248,880
Amortization of Loan Purchase Premiums	141,890		141,890
Amortization of Bond Issuance Costs	558,981		558,981
Credit Facility Fees (note 8)	304,271		304,271
Depreciation and Amortization	134,765	23,782	158,547
Loan Servicing Fees (note 9)	900,000		900,000
Provision for Student Loan Rebates	65,275		65,275
Provision for Arbitrage Liabilities (note 7)	356,900		356,900
Federal Consolidation and Origination Fees	86,906		86,906
Personnel and Professional Services	1,640,221	1,464,667	3,104,888
Technical Services (note 9)	1,053,271	184,106	1,237,377
Postage, Printing, and Telecommunications	308,420	105,559	413,979
Miscellaneous Services, Office, and Equipment	192,550	82,877	275,427
Other Expenses	<u>386,881</u>	<u>46,005</u>	<u>432,886</u>
Total Expenses	24,379,211	1,906,996	26,286,207
Income before Operating Transfers	5,536,674	730,550	6,267,224
Transfer (to) from Other Funds:			
Interfund Transfer	(25,108)	25,108	0
Transfer to the Authority (note 9)	<u>(1,500,000)</u>	<u></u>	<u>(1,500,000)</u>
Net Income	4,011,566	755,658	4,767,224
Retained Earnings at Beginning of Year	<u>28,479,270</u>	<u>8,767,047</u>	<u>37,246,317</u>
Retained Earnings at End of Year	<u>\$32,490,836</u>	<u>\$9,522,705</u>	<u>\$42,013,541</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Balance Sheet

June 30, 1996

<u>Assets</u>	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Loans (note 9)	\$ 270,653,665		\$ 270,653,665
Cash and Cash Equivalents (note 3)	44,029,407	\$ 2,496,979	46,526,386
Investments (note 3)	24,381,476	7,203,850	31,585,326
Accounts Receivable and Prepaid Expenses	173,827	125,533	299,360
Accrued Interest Income	7,551,670	139,064	7,690,734
Special Allowance Receivable (note 4)	1,631,199		1,631,199
Deferred Bond Issuance Costs, Net	2,692,935		2,692,935
Deferred Loan Purchase Premiums, Net	488,253		488,253
Deferred Loan Origination Costs, Net	196,467		196,467
Fixed Assets, Net		1,217,963	1,217,963
Interfund Receivable (Payable)	<u>871,977</u>	<u>(871,977)</u>	<u>0</u>
Total Assets	<u>\$352,670,876</u>	<u>\$10,311,412</u>	<u>\$362,982,288</u>
 <u>Liabilities and Fund Equity</u>			
Insured Student Loan Revenue Bonds (notes 6 & 8)	\$307,640,000		\$307,640,000
Accounts Payable and Accrued Expenses	457,138	\$ 401,924	859,062
Accrued Interest Expense	1,365,423		1,365,423
Allowance for Arbitrage Liabilities (note 7)	<u>6,626,300</u>		<u>6,626,300</u>
Total Liabilities	<u>316,088,861</u>	<u>401,924</u>	<u>316,490,785</u>
Fund Equity:			
Retained Earnings:			
Reserved (note 10)	36,582,015	3,875,000	40,457,015
Unreserved		<u>6,034,488</u>	<u>6,034,488</u>
Total Fund Equity	<u>36,582,015</u>	<u>9,909,488</u>	<u>46,491,503</u>
Total Liabilities and Fund Equity	<u>\$352,670,876</u>	<u>\$10,311,412</u>	<u>\$362,982,288</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Balance Sheet

June 30, 1995

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
<u>Assets</u>			
Loans (note 9)	\$ 278,570,261		\$ 278,570,261
Cash and Cash Equivalents (note 3)	10,003,731	\$ 1,938,143	11,941,874
Investments (note 3)	55,563,347	7,483,181	63,046,528
Accounts Receivable and Prepaid Expenses	2,979	320,844	323,823
Accrued Interest Income	8,723,182	122,105	8,845,287
Special Allowance Receivable (note 4)	2,021,017		2,021,017
Deferred Bond Issuance Costs, Net	2,931,702		2,931,702
Deferred Loan Purchase Premiums, Net	602,766		602,766
Fixed Assets, Net		1,154,454	1,154,454
Interfund Receivable (Payable)	<u>941,113</u>	<u>(941,113)</u>	<u>0</u>
Total Assets	<u>\$359,360,098</u>	<u>\$10,077,614</u>	<u>\$369,437,712</u>
<u>Liabilities and Fund Equity</u>			
Insured Student Loan Revenue Bonds (notes 6 & 8)	\$320,480,000		\$320,480,000
Accounts Payable and Accrued Expenses	273,447	\$ 554,909	828,356
Accrued Interest Expense	1,440,815		1,440,815
Allowance for Arbitrage Liabilities (note 7)	<u>4,675,000</u>		<u>4,675,000</u>
Total Liabilities	<u>326,869,262</u>	<u>554,909</u>	<u>327,424,171</u>
<u>Fund Equity:</u>			
Retained Earnings:			
Reserved (note 10)	32,490,836	3,746,192	36,237,028
Unreserved		<u>5,776,513</u>	<u>5,776,513</u>
Total Fund Equity	<u>32,490,836</u>	<u>9,522,705</u>	<u>42,013,541</u>
Total Liabilities and Fund Equity	<u>\$359,360,098</u>	<u>\$10,077,614</u>	<u>\$369,437,712</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Statement of Cash Flows

Year Ended June 30, 1996

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Principal Received on Loans	\$ 59,884,475		\$ 59,884,475
Interest on Loans	20,746,953		20,746,953
Special Allowance	3,694,286		3,694,286
Commission Received on Debt Recovery		\$2,154,189	2,154,189
Loans Purchased	(7,688,715)		(7,688,715)
Loan Purchase Premiums	(21,375)		(21,375)
Loans Originated	(40,851,762)		(40,851,762)
Interest on Bonds	(17,439,292)		(17,439,292)
Credit Facility Fees	(306,986)		(306,986)
Loan Origination Costs	(202,362)		(202,362)
Other Expenses	(65,394)	(6,194,373)	(6,259,767)
Expense Reimbursement	(4,226,753)	4,226,753	0
Transfer to the Authority	(1,500,000)		(1,500,000)
Net Cash Provided by Operating Activities	12,023,075	186,569	12,209,644
Cash Flows from Investing Activities:			
Investment Income Received	3,919,058	549,229	4,468,287
Proceeds from Sales and Maturities of Investments	579,578,639	2,656,074	582,234,713
Purchases of Investments	(548,387,978)	(2,376,743)	(550,764,721)
Net Cash Provided by Investing Activities	35,109,719	828,560	35,938,279
Cash Flows from Noncapital Financing Activities:			
Proceeds from Debt Issued	15,980,000		15,980,000
Bond Issuance Costs	(267,118)		(267,118)
Bond Principal Payments	(28,820,000)		(28,820,000)
Net Cash Used by Noncapital Financing Activities	(13,107,118)	0	(13,107,118)
Cash Flows from Capital and Related Financing Activities			
System Development Costs		(139,350)	(139,350)
Fixed Assets Acquired		(316,943)	(316,943)
Net Cash Used by Capital and Related Financing Activities	0	(456,293)	(456,293)
Net Increase in Cash and Cash Equivalents	34,025,676	558,836	34,584,512
Cash and Cash Equivalents at Beginning of Year	10,003,731	1,938,143	11,941,874
Cash and Cash Equivalents at End of Year	\$44,029,407	\$2,496,979	\$46,526,386

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Statement of Cash Flows

Year Ended June 30, 1995

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Principal Received on Loans	\$50,750,650		\$50,750,650
Interest on Loans	20,939,174		20,939,174
Special Allowance	2,729,757		2,729,757
Commission Received on Debt Recovery		\$1,946,654	1,946,654
Loans Purchased	(34,474,810)		(34,474,810)
Loan Purchase Premiums	(62,468)		(62,468)
Loans Originated	(8,803,502)		(8,803,502)
Interest on Bonds	(18,277,052)		(18,277,052)
Credit Facility Fees	(306,048)		(306,048)
Loan Servicing Fees	(900,000)		(900,000)
Other Expenses	(85,493)	(6,385,789)	(6,471,282)
Expense Reimbursement	(5,489,567)	5,489,567	0
Transfer to the Authority	(1,500,000)		(1,500,000)
Interfund Transfers	(25,108)	25,108	0
Net Cash Provided by Operating Activities	4,495,533	1,075,540	5,571,073
Cash Flows from Investing Activities:			
Investment Income Received	3,908,190	498,234	4,406,424
Proceeds from Sales and Maturities of Investments	68,191,402	3,205,000	71,396,402
Purchases of Investments	(71,822,215)	(3,318,600)	(75,140,815)
Net Cash Provided by Investing Activities	277,377	384,634	662,011
Cash Flows from Noncapital Financing Activities:			
Proceeds from Debt Issued	30,400,000		30,400,000
Bond Issuance Costs	(261,856)		(261,856)
Bond Principal Payments	(32,580,000)		(32,580,000)
Net Cash Used by Noncapital Financing Activities	(2,441,856)	0	(2,441,856)
Cash Flows from Capital and Related Financing Activities			
Fixed Assets Acquired		(1,150,589)	(1,150,589)
Net Cash Used by Capital and Related Financing Activities	0	(1,150,589)	(1,150,589)
Net Increase in Cash and Cash Equivalents	2,331,054	309,585	2,640,639
Cash and Cash Equivalents at Beginning of Year	7,672,677	1,628,558	9,301,235
Cash and Cash Equivalents at End of Year	\$10,003,731	\$1,938,143	\$11,941,874

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Year Ended June 30, 1996

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Net Income	\$4,091,179	\$386,783	\$4,477,962
Income and Expense Items not Affecting Cash			
Provided by Operating Activities:			
Investment Income	(3,716,014)	(566,188)	(4,282,202)
Depreciation		234,027	234,027
Amortization of Software		158,757	158,757
Amortization of Bond Issuance Costs	505,885		505,885
Amortization of Loan Purchase Premiums	135,888		135,888
Amortization of Loan Origination Costs	5,895		5,895
Provision for Loan Losses	65,456		65,456
Gain on Sale of Securities	(8,790)		(8,790)
Items Not Accounted for as Revenues or Expenses:			
Principal Received on Loans	59,884,475		59,884,475
Loans Purchased, Including Premium	(7,710,090)		(7,710,090)
Loans Originated Including Costs	(41,054,124)		(41,054,124)
(Increase) Decrease in Assets:			
Accounts Receivable and Prepaid Expenses	(170,848)	195,311	24,463
Accrued Interest Receivable	968,468		968,468
Borrower Interest Converted to Principal	(3,492,858)		(3,492,858)
Special Allowance Receivable	389,818		389,818
Interfund Receivable/Payable	69,136	(69,136)	0
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	183,691	(152,985)	30,706
Accrued Interest Payable	(75,392)		(75,392)
Allowance for Arbitrage Liabilities	1,951,300		1,951,300
Net Cash Provided by Operating Activities	<u>\$12,023,075</u>	<u>\$186,569</u>	<u>\$12,209,644</u>

Kentucky Higher Education Student Loan Corporation

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Year Ended June 30, 1995

	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Net Income	\$4,011,566	\$755,658	\$4,767,224
Income and Expense Items not Affecting Cash			
Provided by Operating Activities:			
Investment Income	(3,999,537)	(478,754)	(4,478,291)
Depreciation		158,547	158,547
Amortization of Bond Issuance Costs	558,982		558,982
Amortization of Loan Purchase Premiums	141,890		141,890
Provision for Loan Losses	37,076		37,076
Items Not Accounted for as Revenues or Expenses:			
Principal Received on Loans	50,750,650		50,750,650
Loans Purchased, Including Premium	(34,537,278)		(34,537,278)
Loan Originated	(8,803,502)		(8,803,502)
(Increase) Decrease in Assets:			
Accounts Receivable and Prepaid Expenses	3,760	(264,476)	(260,716)
Accrued Interest Receivable	425,732		425,732
Borrower Interest Converted to Principal	(1,613,565)		(1,613,565)
Special Allowance Receivable	(1,059,585)		(1,059,585)
Interfund Receivable/Payable	(829,824)	829,824	0
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	(394,893)	74,741	(320,152)
Accrued Interest Payable	(28,172)		(28,172)
Allowance for Student Loan Rebates	(524,667)		(524,667)
Allowance for Arbitrage Liabilities	<u>356,900</u>		<u>356,900</u>
Net Cash Provided by Operating Activities	<u>\$4,495,533</u>	<u>\$1,075,540</u>	<u>\$5,571,073</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(1) Description of Business and General Bond Resolution

The Kentucky Higher Education Student Loan Corporation (Corporation) is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a student loan finance program in the Commonwealth of Kentucky. Governed by a Board of Directors, the Corporation is authorized to finance state and federally insured loans for students attending eligible post secondary institutions, service and collect educational loans, and issue bonds and notes not to exceed \$553,000,000 in order to carry out its corporate powers and duties. The loans financed by the Corporation carry fixed or variable rates ranging from 6% to 12% depending on the date the loans were originated, and are generally repayable over a period not to exceed ten years, excluding deferments, following the commencement of repayment. The Corporation's objectives are accomplished primarily through its secondary market program, which purchases student loans from eligible lenders, and its direct lending program, which makes loans to parents and students directly. During the year ended June 30, 1996, the Corporation's direct lending program increased substantially. The Corporation also services student loans and collects defaulted educational loans.

The Corporation's General Bond Resolution and separate Series Resolutions for each issue of Revenue Bonds contain provisions establishing funds and accounts for the segregation of assets and provisions restricting the use of the proceeds of bonds and other funds received.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Corporation's financial statements have been prepared in accordance with generally accepted accounting principles applicable to state government entities, which provide that financial activities operated similarly to private business enterprises be presented as separate proprietary funds. The Corporation follows all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation uses the accrual basis of accounting. The Corporation's financial statements are also included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

The Bond Fund represents all transactions of the Corporation which are covered under the General Bond Resolution. The Operating Fund represents the financial position and results of operations of the Corporation not restricted by the General Bond Resolution.

Certain prior year amounts have been reclassified for comparability purposes. Such reclassifications have no impact on the Corporation's financial position, results of operations, or cash flows.

(b) Loan Losses

All loans are insured by the Kentucky Higher Education Assistance Authority (Authority) or the U. S. Department of Education. Management of the Corporation believes that the Authority will be able to honor all default claims presented by the Corporation. Loans made prior to October 1, 1993, are 100% insured. Loans made on or after October 1, 1993, are 100% insured against borrowers' death, disability, or bankruptcy and 98% insured against borrowers' default. The Corporation records a provision for student loan losses based upon its expected default claims with respect to 98% insured loans. The provision for student loan losses was \$65,455 and \$37,076 for the years ended June 30, 1996, and 1995, respectively.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

(c) Investments

Investments, which consist principally of securities of the federal government or its agencies, are stated at cost, adjusted for amortization of premiums and accretion of discounts. The specific identification method is used to determine the cost of investments sold.

(d) Commission on Debt Recovery

The Corporation's fee for collection of defaulted educational loans is recorded as commission revenue when payments are received. Defaulted loans are not presented on the balance sheet.

(e) Income Taxes

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky and is therefore not subject to federal or state income taxes.

(f) Deferred Bond Issuance Costs

Bond issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding method, which approximates the effective interest method.

(g) Deferred Loan Purchase Premiums and Deferred Loan Origination Costs

Loan purchase premiums and certain origination costs are deferred and amortized over the estimated life of the loans acquired or originated, based on projected balances outstanding, which approximates the effective interest method.

(h) Fixed Assets

Office furnishings, equipment, and system development costs are depreciated over their estimated useful lives using the straight-line method.

(i) Statement of Cash Flows

For the statement of cash flows, the Corporation considers cash and cash equivalents to be money market funds and investments which mature within one month of purchase.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(3) Cash and Investments

Cash and investments as of June 30, 1996, and 1995, are summarized below:

	1996				1995
	<u>Investments</u>	<u>Cash Equivalents</u>	<u>Cash</u>	<u>Total</u>	<u>Total</u>
Bond Fund	\$24,381,476	\$43,653,600	\$ 375,807	\$68,410,883	\$65,567,078
Operating Fund	<u>7,203,850</u>	<u>1,621,390</u>	<u>875,589</u>	<u>9,700,829</u>	<u>9,421,324</u>
Total cash and investments	<u>\$31,585,326</u>	<u>\$45,274,990</u>	<u>\$1,251,396</u>	<u>\$78,111,712</u>	<u>\$74,988,402</u>

Deposits, identified as cash in the above summary, are as follows as of June 30, 1996, and 1995:

	1996		1995	
	<u>Financial Statement Amount</u>	<u>Bank Balance</u>	<u>Financial Statement Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000	\$ 202,018	\$ 202,557
Uninsured and uncollateralized	<u>1,051,396</u>	<u>1,587,079</u>	<u>3,239,274</u>	<u>3,672,028</u>
Total deposits	<u>\$1,251,396</u>	<u>\$1,787,079</u>	<u>\$3,441,292</u>	<u>\$3,874,585</u>

The following is a summary of investments, including cash equivalents, categorized as of June 30, 1996, and 1995:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Uncategorized</u>	<u>Financial Statement Amount</u>	<u>Market Value</u>
<u>1996</u>						
U.S. Treasury and government agency obligations	\$71,451,398				\$71,451,398	\$71,382,320
Governmental mutual funds				<u>\$5,408,918</u>	<u>5,408,918</u>	<u>5,408,918</u>
Total Investments	<u>\$71,451,398</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$5,408,918</u>	<u>\$76,860,316</u>	<u>\$76,791,238</u>
<u>1995</u>						
U.S. Treasury and government agency obligations	\$69,417,070				\$69,417,070	\$69,353,291
Governmental mutual funds				<u>\$2,130,040</u>	<u>2,130,040</u>	<u>2,130,040</u>
Total Investments	<u>\$69,417,070</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,130,040</u>	<u>\$71,547,110</u>	<u>\$71,483,331</u>

The Corporation's investments are categorized to give an indication of the level of risk assumed by the Corporation at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Corporation's name.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(4) Special Allowance

The U. S. Department of Education pays a special allowance to the Corporation after the end of each quarter representing supplemental interest on outstanding, insured loans at a rate based on the quarterly average of the 91-day U.S. treasury bill rate.

(5) Retirement Plan

The Corporation provides retirement benefits to all full-time employees through the Kentucky Employees Retirement System (KERS). KERS is a multiple-employer, defined benefit plan sponsored by the Commonwealth of Kentucky, which provides retirement, disability, and death benefits. The Corporation contributed 8.56% and the employees contributed 5% of their gross wages to the plan for the years ended June 30, 1996, and 1995. Such rates are intended to provide for normal costs on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. These contribution rates are determined by the Board of Trustees of the Kentucky Retirement Systems each biennium. The payroll of employees covered by the retirement plan was \$2,000,620 and \$1,748,980 for the years ended June 30, 1996, and 1995, respectively. Total payroll for the years ended June 30, 1996, and 1995, was \$2,000,648 and \$1,752,225, respectively.

KERS participants have fully vested interest after the completion of sixty months of service, twelve months of which are current service. The KERS contribution requirement for the years ended June 30, 1996, and 1995, was \$272,216 and \$237,162, respectively, which consisted of \$172,185 in employer contributions and \$100,031 from employees in 1996, and \$149,713 in employer contributions and \$87,449 from employees in 1995.

The "Pension Benefit Obligation" is a standardized disclosure measure of the present value of retirement benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of KERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. KERS does not make separate measurements of assets and pension benefit obligation for individual employers. The measure is independent of the actuarial funding method used to determine contributions to KERS. The pension benefit obligation was computed as part of an actuarial valuation performed at June 30, 1995, for KERS as a whole. Significant actuarial assumptions used in the valuation include a rate of return on investments of 8% per year, compounded annually, and projected salary increases of 6.5% per year, compounded annually. As of June 30, 1995, KERS' pension benefit obligation was \$3,024,257,490; net assets available for benefits at cost were \$2,542,688,342 (with a market value of \$3,161,344,733); and the unfunded pension benefit obligation was \$481,569,148. The Corporation's contribution represented less than one percent of total contributions required for all participating entities.

Ten-year historical trend information showing KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the KERS June 30, 1995, annual financial report. For each year of the three years ended June 30, 1995, available assets were sufficient to fund 84.1%, 88.6%, and 90.6% of the KERS pension benefit obligation. The KERS unfunded pension benefit obligation represented 40.6%, 27.4%, and 21.4% of annual payroll for employees covered by KERS for the three years ended June 30, 1995.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(6) Revenue Bonds

At June 30, 1996, and 1995, Insured Student Loan Revenue Bonds, all of which are tax-exempt issues, were as follows:

	<u>1996</u>	<u>1995</u>
1985 Series A	\$16,470,000	\$21,375,000
1986 Series A	-0-	8,500,000
1991 Series B	28,750,000	32,500,000
1991 Series C	15,185,000	16,595,000
1991 Series D	22,830,000	24,710,000
1991 Series E	46,000,000	46,000,000
1993 Series A	29,530,000	34,815,000
1993 Series B	90,000,000	90,000,000
1993 Series C	14,335,000	15,585,000
1994 Series A	14,965,000	15,555,000
1994 Series B	13,595,000	14,845,000
1995 Series A	12,230,000	
1995 Series B	750,000	
1995 Series C	3,000,000	
	<u>\$307,640,000</u>	<u>\$320,480,000</u>

The outstanding 1985 Series A term bonds are scheduled to mature on December 1, 1997, and June 1, 2001, and bear interest at 8.20% and 9.25% respectively. The term bonds are subject to mandatory redemption based on specified default claims payments and cumulative sinking fund redemptions, which have been reflected in the principal debt repayment schedule which follows. The 8.20% term bonds due December 1, 1997, are also subject to mandatory redemption for the incremental effect of special allowance payments resulting from 91-day U.S. treasury bill rates in excess of 7.5%.

The outstanding 1986 Series A Bonds were refunded during the year ended June 30, 1996, by issuance of the 1995 Series A Bonds.

The outstanding 1991 Series B Bonds are scheduled to mature semiannually in various amounts through June 1, 2003, and bear interest ranging from 6.05% to 6.80%.

The outstanding 1991 Series C Bonds are scheduled to mature semiannually in various amounts through June 1, 2002, and bear interest ranging from 5.85% to 6.50%.

The outstanding 1991 Series D Bonds are scheduled to mature semiannually in various amounts through December 1, 2011, and bear interest ranging from 6.20% to 7.10%.

The outstanding 1991 Series E Bonds mature on December 1, 2011, and bear interest rates that change weekly based on specified indices.

The outstanding 1993 Series A Bonds are scheduled to mature semiannually in various amounts through December 1, 2000, and bear interest ranging from 3.90% to 4.70%.

The outstanding 1993 Series B Bonds are scheduled to mature semiannually in various amounts through June 1, 2005, and bear interest ranging from 4.90% to 5.30%.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(6) Revenue Bonds (continued)

The outstanding 1993 Series C Bonds are scheduled to mature in various amounts through June 1, 2002, and bear interest ranging from 4.45% to 5.15%.

The outstanding 1994 Series A Bonds are scheduled to mature in various amounts through June 1, 2002, and bear interest ranging from 5.30% to 6.25%.

The outstanding 1994 Series B Bonds are scheduled to mature in various amounts through June 1, 2002, and bear interest ranging from 5.65% to 6.60%.

The outstanding 1995 Series A Bonds are scheduled to mature in various amounts through June 1, 2002, and bear interest ranging from 4.20% to 4.90%.

The outstanding 1995 Series B Bonds are scheduled to mature on June 1, 2003, and bear interest at 5.15%.

The outstanding 1995 Series C Bonds are scheduled to mature on June 1, 2003, and bear interest at 5.45%.

Principal debt repayments for all bonds outstanding are summarized as follows:

<u>Year Ending June 30,</u>	<u>Principal Repayment Amount (Thousands)</u>	<u>Balance Outstanding (Thousands)</u>	<u>Average Interest Rate</u>
1997	\$20,040	\$287,600	5.72%
1998	30,885	256,715	5.73
1999	23,750	232,965	5.79
2000	37,710	195,255	5.81
2001	25,825	169,430	5.83
2002	35,160	134,270	5.47
2003	26,040	108,230	5.40
2004	19,715	88,515	5.46
2005	37,680	50,835	5.55
2006	845	49,990	7.08
2007	995	48,995	7.09
2008	560	48,435	7.10
2009	1,960	46,475	7.10
2010	70	46,405	7.10
2011	75	46,330	7.10
2012	330	46,000	7.10
2012	46,000	0	Variable

All assets of the Bond Fund are pledged for repayment of the bond issues.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(7) Allowance for Arbitrage Liabilities

Certain of the Corporation's tax-exempt bond issues subject the Corporation to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, consist of three types, which are arbitrage rebate, forgiveness, and yield adjustment payments. The liability for yield adjustment payments was \$6,626,300 and \$4,675,000 as of June 30, 1996, and 1995, respectively. The Corporation had no liability for arbitrage rebate or forgiveness as of June 30, 1996, and 1995.

Arbitrage rebate is applicable to the 1986 Series A, 1991 Series B & C, 1991 Series D & E, 1993 Series A, B, & C, 1994 Series A & B, and 1995 Series A, B & C Bonds. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans), which exceeds the bond yield (arbitrage yield, as defined), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds.

Forgiveness is applicable to the 1986 Series A, 1991 Series B & C, 1993 Series A, B & C, 1994 Series A & B, and 1995 Series A, B & C Bonds. In general, a yield restriction is imposed on acquired purpose investments, designating the allowable yield as 1.5% above the bond yield (arbitrage yield, as defined), with the federal special allowance excluded from income. Impact of the yield restriction (loss of tax-exempt status) may be avoided by partial forgiveness of the applicable student loans. Forgiveness can be applied upon maturity of the bonds or as otherwise prescribed by the bond resolutions.

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to the 1991 Series D & E Bonds, and any future issues except certain refunding issues. The allowable yield is 2% above the bond yield (arbitrage yield, as defined), with the federal special allowance included in income. Impact of the yield restriction (loss of tax-exempt status) may be avoided by rebating the excess yield to the U.S. Treasury every 10 years, and upon final maturity of the bonds.

The determination of excess yield on acquired purpose investments is accumulative over the life of the applicable bond series, as is the determination of arbitrage rebate on non-purpose investments, except for variable rate bonds, for which arbitrage rebate is determined for each five-year period without retroactivity.

(8) Credit Facility and Commitment Agreements

Through June 24, 1996, the 1991 Series E Bonds were collateralized by funds available under a Letter of Credit issued by The Sumitomo Bank, Limited, subject to the terms of a Credit Facility and Commitment Agreement. Effective June 24, 1996, the Corporation replaced the Letter of Credit with a Standby Bond Purchase Agreement, pursuant to which Credit Suisse will purchase any bonds not remarketed, and a Municipal Bond Insurance Policy issued by AMBAC Indemnity Corporation, which secures payment of principal and interest on the bonds. The Standby Bond Purchase Agreement expires June 24, 2001, unless it is renewed, and the Municipal Bond Insurance Policy extends through the term of the 1991 Series E Bonds, December 1, 2011.

(9) Related Party Transactions

The chairman and an *ex officio* non voting member of the Authority's Board of Directors are voting members of the Corporation's Board of Directors. One member of the Authority's management serves in a similar capacity for the Corporation.

Through June 30, 1995, the Authority provided certain loan servicing and administrative services to the Corporation pursuant to an Administrative and Servicing Agreement. The amount recognized as servicing

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(9) Related Party Transactions (continued)

expense was \$900,000 for the year ended June 30, 1995. No servicing expense was incurred for the year ended June 30, 1996.

During the years ended June 30, 1996, and 1995, the Corporation incurred expenses of \$932,517 and \$1,081,831 for technical services, \$306,856 and \$118,169 for administrative services, and \$18,621 and \$24,415 for legal services provided by the Authority. For the year ended June 30, 1996, the Corporation also incurred expenses of \$24,358 for loan origination and disbursement services provided by the Authority. These services were initiated during the current year. Pursuant to a separate agreement, the Corporation collects certain defaulted student loans for the Authority. Fee income recognized for the years ended June 30, 1996, and 1995, was \$1,953,557 and \$2,158,792, respectively. In connection with this agreement, the Corporation incurred \$434,441 and \$693,463 in legal collection assistance fees for cash collections on accounts that were assigned to the Authority's Division of Legal Services for legal assistance.

Amounts due to and from the Authority at June 30, 1996, and 1995, are as follows:

	<u>1996</u>	<u>1995</u>
Due to the Authority	\$100,071	\$108,102
Due from the Authority	468,873	261,335

Substantially all loans purchased or made by the Corporation are insured by the Authority.

On July 1, 1995, the Corporation transferred \$1.5 million to the Authority for support of state student financial assistance programs, as approved by the Corporation's Board of Directors on March 21, 1995, pursuant to Section 508(c) of the General Bond Resolution. The Corporation's Board of Directors approved a similar transaction on March 22, 1996, and on August 12, 1996, the Corporation transferred \$2.5 million to the Authority.

Certain members of the Corporation's Board of Directors serve as officers or directors of lending institutions with which the Corporation transacts business. Of all loans purchased by and referred to the Corporation in the years ended June 30, 1996, and 1995, less than 1% were purchased or referred from these financial institutions.

(10) Reserved Fund Equity

(a) Bond Fund

The reserved portion of retained earnings is required by the General Bond Resolution and the separate Series Resolutions.

(b) Operating Fund

The Board of Directors has reserved the retained earnings for an amount equal to one-half of the Corporation's budgeted operating expenses for the upcoming fiscal year.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(11) Commitments and Contingencies

The Corporation has entered into loan purchase contracts with various eligible lenders. Subject to the terms and conditions of these agreements, the Corporation on June 30, 1996, had plans to purchase approximately \$750,000 of insured student loans. These contracts can be terminated by either party.

(12) Subsequent Event

On September 12, 1996, the Corporation issued \$27,500,000 of Insured Student Loan Revenue Bonds to continue its student loan finance program. The \$25,000,000 1996 Series A Bonds are scheduled to mature on June 1, 2026, and bear interest rates that change weekly based on specified indices. The \$2,500,000 1996 Series B Bonds are scheduled to mature on June 1, 2003, and bear interest at 5.15%.

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Appendix D

Proposed Form of Approving Opinions of Bond Counsel

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APPENDIX D

PROPOSED FORM OF APPROVING OPINIONS OF BOND COUNSEL

Bond Counsel proposes to deliver its final approving opinion upon the delivery of the Senior Series 1997-A Bonds, in substantially the form which follows.

[LETTERHEAD OF HAWKINS, DELAFIELD & WOOD]

[Date of Delivery]

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$_____ Student Loan Revenue Bonds, Series 1997-A (the "Series 1997-A Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Series 1997-A Bonds have been authorized and issued pursuant to Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May __, 1997, as amended to date (the "General Resolution"), and the Series 1997-A Bond Resolution adopted by the Corporation on May __, 1997 which specifically authorized the Series 1997-A Bonds (the "Series Resolution"). Certain capitalized terms used but not defined herein are as defined for purposes of the Series Resolution. Pursuant to the General Resolution and the Series Resolution, the Corporation has authorized the issuance of the Series 1997-A Bonds for the purposes of providing funds for the financing of Student Loans.

The Series 1997-A Bonds, dated _____, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates determined as provided in the Series Resolution.

The Series 1997-A Bonds are issuable as fully registered bonds in the denomination of \$50,000 and any integral multiple thereof. The Series 1997-A Bonds are subject to exchange, to conversion and to redemption prior to maturity and are payable upon the terms and conditions set forth therein, in the General Resolution and in the Series Resolution.

Pursuant to the Act and the General Resolution, the Corporation is authorized to issue the Series 1997-A Bonds. The Series 1997-A Bonds constitute Senior Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the General Resolution and the Series Resolution with respect to Senior Obligations.

The General Resolution and the Series Resolution provide that the pledges and assignments made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, each of which shall be of equal rank without preference, priority or distinction, except as expressly provided therein. The General Resolution and the Series Resolution further provide that the Series 1997-A Bonds and all other Senior Obligations shall have the same priority of claim as to payment under the General Resolution, which priority shall be senior to that of all Obligations

other than Senior Obligations. The Corporation reserves the right to issue Additional Obligations under the General Resolution which are equal to or subordinate in such priority to the Series 1997-A Bonds.

The General Resolution and the Series Resolution provide that nonpayment of the principal of or interest on Subordinate Obligations, including Senior Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the General Resolution and the Series Resolution to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding, shall not result in an Event of Default under the General Resolution and the Series Resolution that would give rise to a right on the part of Owners of affected Obligations to accelerate the affected Obligations or to exercise any other remedy. The General Resolution and the Series Resolution further provide: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations, such as the Series 1997-A Bonds, may exercise any remedy or right of enforcement or consent to any action thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

The General Resolution and the Series Resolution provide that Owners of the Series 1997-A Bonds will have no claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the General Resolution and that the recipients of such amounts shall in no event be required to refund such distributed amounts.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the General Resolution and the Series Resolution, to issue its Student Loan Revenue Bonds, including the Series 1997-A Bonds, pursuant to the General Resolution and to perform its duties, obligations and covenants pursuant to the terms and conditions of the General Resolution including the financing and refinancing of Student Loans.

3. The General Resolution and the Series Resolution have been duly and validly adopted by the Corporation, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The Series 1997-A Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, including the General Resolution and the Series Resolution.

5. The Series 1997-A Bonds are valid and binding special and limited obligations of the Corporation, enforceable in accordance with their terms and the terms of the General Resolution and the Series Resolution and entitled to the benefits of the Act, the General Resolution and the Series Resolution. As provided by the General Resolution, the Series 1997-A Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) the proceeds of the sale of the Series 1997-A Bonds; (ii) the Revenues and Loans; and (iii) all moneys and investments held in any of the funds and accounts established by the General Resolution (other than the Rebate Fund), subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Series 1997-A Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Series 1997-A Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Series 1997-A Bonds.

7. Under existing statutes, the Series 1997-A Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Bonds, the General Resolution and the Series Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 1997-A Bond and, in our opinion, the form of said Series 1997-A Bond and its execution are regular and proper.

Very truly yours,

Bond Counsel proposes to deliver its final approving opinion upon the delivery of the Subordinate Series 1997-B Bonds, in substantially the form which follows.

[LETTERHEAD OF HAWKINS, DELAFIELD & WOOD]

[Date of Delivery]

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$_____ Student Loan Revenue Bonds, Series 1997-B (the "Series 1997-B Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Series 1997-B Bonds have been authorized and issued pursuant to Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May __, 1997, as amended to date (the "General Resolution"), and the Series 1997-B Bond Resolution adopted by the Corporation on May __, 1997 which specifically authorized the Series 1997-B Bonds (the "Series Resolution"). Certain capitalized terms used but not defined herein are as defined for purposes of the Series Resolution. Pursuant to the General Resolution and the Series Resolution, the Corporation has authorized the issuance of the Series 1997-B Bonds for the purposes of providing funds for the financing of Student Loans.

The Series 1997-B Bonds, dated _____, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates per annum as set forth in the Series Resolution.

The Series 1997-B Bonds are issuable as fully registered bonds in the denomination of \$50,000 and any integral multiple thereof. The Series 1997-B Bonds are subject to exchange, to conversion and to redemption prior to maturity and are payable upon the terms and conditions set forth therein, in the General Resolution and in the Series Resolution.

Pursuant to the Act and the General Resolution, the Corporation is authorized to issue the Series 1997-B Bonds. The Series 1997-B Bonds constitute Subordinate Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the General Resolution and the Series Resolution with respect to Subordinate Obligations, other than Senior Subordinate Obligations, of equal Class as the Series 1997-B Bonds.

The General Resolution and the Series Resolution provide that the pledges and assignments made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, each of which shall be of equal rank without preference, priority or distinction, except as expressly provided therein. The General Resolution and the Series Resolution further provide that the Series 1997-B Bonds and all other Subordinate Obligations, other than Senior Subordinate Obligations, having the same priority by the applicable Series Resolution authorizing their issuance shall constitute a Class thereunder which shall have the same priority of claim as to payment under the General Resolution, which priority shall be: (i) senior to that of all other Subordinate Obligations expressly identified in a supplemental indenture as subordinate to such Class, and to all Obligations having the same priority of claim as to payment as do Subordinated Obligations so expressly identified; (ii) subordinate to that of any Senior Obligations and Senior Subordinated Obligations; and (iii) subordinate to that of all other Subordinated Obligations

expressly identified in a supplemental indenture as senior to such Class and to all Obligations having the same priority of claim as to payment as do Subordinated Obligations so expressly identified, in each case while Outstanding under the General Resolution and the Series Resolution. The Corporation is issuing its Student Loan Revenue Bonds, Series 1997-A, which are Senior Obligations under the General Resolution, concurrently with the issuance of the Series 1997-B Bonds. The Corporation reserves the right to issue Additional Obligations under the General Resolution which are senior, equal to or subordinate in such priority to the Series 1997-B Bonds.

The General Resolution and the Series Resolution provide that nonpayment of the principal of or interest on Subordinate Obligations, including Senior Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the General Resolution and the Series Resolution to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding, shall not result in an Event of Default under the General Resolution and the Series Resolution that would give rise to a right on the part of Owners of affected Obligations to accelerate the affected Obligations or to exercise any other remedy. The General Resolution and the Series Resolution further provide: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations may exercise any remedy or right of enforcement or consent to any action thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

The General Resolution and the Series Resolution provide that Owners of the Series 1997-B Bonds will have no claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the General Resolution and that the recipients of such amounts shall in no event be required to refund such distributed amounts.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.
2. The Corporation has valid right and lawful authority to adopt the General Resolution and the Series Resolution, to issue its Student Loan Revenue Bonds, including the Series 1997-B Bonds, pursuant to the General Resolution and to perform its duties, obligations and covenants pursuant to the terms and conditions of the General Resolution including the financing and refinancing of Student Loans.
3. The General Resolution and the Series Resolution have been duly and validly adopted by the Corporation, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.
4. The Series 1997-B Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, including the General Resolution and the Series Resolution.
5. The Series 1997-B Bonds are valid and binding special and limited obligations of the Corporation, enforceable in accordance with their terms and the terms of the General Resolution and the Series Resolution and entitled to the benefits of the Act, the General Resolution and the Series Resolution. As provided by the General Resolution, the Series 1997-B Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) the proceeds of the sale of the Series 1997-B Bonds; (ii) the Revenues and Loans; and (iii) all moneys and investments held in any of the funds and accounts established by the General Resolution (other than the Rebate Fund), subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Series 1997-B Bonds, on a basis of parity

with all other Obligations secured thereby and subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Series 1997-B Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Series 1997-B Bonds.

7. Under existing statutes and court decisions, interest on the Series 1997-B Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 1997-B Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code on individuals and corporations.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 1997-B Bonds in order that, for federal income tax purposes, interest on the Series 1997-B Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Series 1997-B Bond proceeds, restrictions on the investment of Series 1997-B Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 1997-B Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance is ascertained.

Prior to the delivery of the Series 1997-B Bonds, the Corporation and the Trustee executed a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Corporation covenants that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 1997-B Bonds will, for the purposes of federal income taxation, be not included in gross income.

In rendering the opinion in paragraph 7 hereof, we have relied upon and assumed: (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Series 1997-B Bonds; and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Regulatory Agreement.

8. Under existing statutes, the Series 1997-B Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Bonds, the General Resolution and the Series Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 1997-B Bond and, in our opinion, the form of said Series 1997-B Bond and its execution are regular and proper.

Very truly yours,

Appendix E
Auction Procedures

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AUCTION PROCEDURES

The Auction Procedures as separately applicable to each Series or Subseries of ARCs are as set forth below. All of the terms used in this Appendix E are defined herein or in other parts of this Official Statement.

Definitions

"AA Composite Commercial Paper Rate" means, as of any date of determination, (A) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, as of the close of business on the Business Day immediately preceding such date of determination. If at the time quotations are required any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, or if less than three Commercial Paper Dealers are then serving as such for any reason, the "AA" Composite Commercial Paper Rate shall be determined on the basis of such quotation or quotations furnished by the Commercial Paper Dealer or Commercial Paper Dealers then serving as such and providing a quotation. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (a) 100 times (b) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (i) 1.00 and (ii) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days from (and including) the date of determination to (but excluding) the date on which such commercial paper matures and the denominator of which shall be 360.

"After-Tax Equivalent Rate" on any date of determination, means the interest rate per annum equal to the product of (i) the "AA" Composite Commercial Paper Rate on such date and (ii) 1.00 minus the Statutory Corporate Tax Rate on such date.

"All-Hold Rate" on any date of determination with respect to the Series A ARCs, shall mean the interest rate per annum equal to 90% of LIBOR; and with respect to the Series B ARCs, shall mean the interest rate per annum equal to 90% (as such percentage may be adjusted pursuant to the Resolutions) of the lesser on such date of:

- (a) the After-Tax Equivalent Rate on such date; and
- (b) the Kenny Index on such date,

rounded to the nearest one thousandth (.001) of 1%, provided that in no event shall the All-Hold Rate be more than the Maximum Rate or less than zero.

"Applicable Number of Business Days" means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

"Applicable Percentage" on any date of determination, means the percentage determined (as such percentage may be adjusted pursuant to the Resolutions) based on Moody's credit rating of the Series B ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Moody's Credit Rating</u>	<u>Applicable Percentage</u>
"Aaa"	175%
"Aa3" to "Aa1"	175%
"A3" to "A1"	175%
"Baa3" to "Baa1"	200%
Below "Baa3"	265%

provided, that if the Series B ARCs are not then rated by Moody's or if a Payment Default has occurred and is continuing, the Series B Applicable Percentage shall be 265%. For purposes of this definition, Moody's rating categories of "Aaa", "Aa", "A", and "Baa", refer to and include the respective rating categories correlative thereto if Moody's shall have changed or modified its generic rating categories or if Moody's does not rate or no longer rates the Series B ARCs or has been replaced.

"ARCs" shall mean the Senior Series 1997-A Bonds and the Subordinate Series 1997-B Bonds outstanding as Auction Rate Certificates.

"Auction" shall mean each periodic implementation of the Auction Procedures, as described herein.

"Auction Agency Agreement" shall mean the Auction Agency Agreement dated as of May 1, 1997 among the Corporation, the Trustee and the Auction Agent and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

"Auction Date" shall mean for the Senior Series 1997-A-1 Bonds, June 16, 1997; for the Senior Series 1997-A-2 Bonds, June 23, 1997 and for the Subordinate Series 1997-B Bonds, June 16, 1997 and thereafter, in each instance the Business Day immediately preceding the first day of each Interest Period, other than:

- (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Resolutions.

"Auction Period" means, with respect to any ARCs, the Interest Period applicable thereto as the same may be changed pursuant to the Resolutions.

"Auction Procedures" shall mean the procedures hereinafter set forth.

"Auction Rate" shall mean the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures.

"Authorized Denominations" shall mean with respect to the Senior Series 1997-A Bonds and Subordinate Series 1997-B Bonds outstanding as ARCs \$50,000 and any integral multiple thereof.

"Bond-Equivalent Yield" shall mean, in respect of any security with a maturity of six months or less the rate for which is quoted in The Wall Street Journal on a bank discount basis, a yield (expressed as a percentage) calculated in accordance with the following formula and rounded up to the nearest one-hundredth of one percent:

$$\text{Bond Equivalent Yield} = \frac{Q \times N}{360 - (TxQ)} \times 100$$

where "Q" refers to the per annum rate for the security quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366 (days), as the case may be, and "T" refers to the number of days to maturity.

"Business Day" shall mean any day other than April 14 and 15, December 30 and 31, a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close.

"Carry-over Amount" shall mean the excess, if any, of (a) the amount of interest on a Senior Series 1997-A Bond that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Senior Series 1997-A Bond actually accrued with respect to such Senior Series 1997-A Bond with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to "principal" or "interest" in the Series A Resolution and in the Senior Series 1997-A Bond shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

"Change of Preference Law" means, with respect to any Holder of Series B ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the Closing Date which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

"Default Rate" on any date of determination with respect to the Series A ARCs shall mean the interest rate per annum equal to the lesser of (i) One-Month LIBOR plus 1.50% or (ii) the Maximum Interest Rate; and with respect to the Series B ARCs shall mean the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Kenny Index and (ii) the Maximum Interest Rate.

"Depository" shall mean Cede & Co., as the nominee of DTC or any successor securities depository selected or approved by the Corporation.

"Existing Holder" shall mean a person who has signed a Master Purchaser's Letter and is listed as the owner of ARCs in the records of the Auction Agent.

"Favorable Opinion" means an opinion of Bond Counsel addressed to the Corporation and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Resolutions and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Subordinate Series 1997-B Bonds.

"Holder" shall mean the beneficial owner of any Bond.

"Initial Interest Period" shall mean the period from and including the respective dates of delivery of each Series of the 1997 Bonds and ending: on June 16, 1997 as to the Senior Series 1997-A-1 Bonds; on June 23, 1997 as to the Senior Series 1997-A-2 Bonds; and on June 16, 1997 as to the Subordinate Series 1997-B Bonds.

"Interest Amount" shall mean the amount of interest distributable in respect of each \$1,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARCs for any Interest Period or part thereof, as calculated in accordance with Resolutions.

"Interest Payment Date" means with respect to the Senior Series 1997-A Bonds, the day following the end of each Interest Period; provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Dates therefor shall be May 1 and November 1 during such Interest Period and the day following the end of such Interest Period, and shall also mean the maturity date of the Senior Series 1977-A Bonds, or if any such date is not a Business Day, the next succeeding Business Day; and, with respect to the Subordinate Series 1997-B Bonds, shall mean each May 1 and November 1, and on the maturity date thereof, or if any such day is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding April 30 or October 31, as the case may be).

"Interest Period" means (i) so long as interest is payable on May 1, and November 1, with respect thereto and unless otherwise changed as described in the Resolutions, the Initial Interest Period and each successive 35-day period thereafter, respectively, commencing on a Tuesday and ending on (and including) a Monday (or such other changed period), and (ii) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period as described in the Resolutions, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"Kenny Index" shall mean the index most recently made available by Kenny S&P Evaluation Services ("Kenny") or any successor thereto (the "Indexing Agent") based upon 30-day yield evaluations at par of securities, the interest of which is excluded from gross income for federal income tax purposes under the Code, of not less than five "Intermediate Grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The securities on which the Kenny Index is based shall not include any securities the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all such securities are subject to such tax. In the event that Kenny no longer publishes an index satisfying the above definition of the Kenny Index or the Market Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, then the Market Agent shall announce a rate based upon the same criteria used by Kenny to determine the Kenny Index and the rate announced by the Market Agent for each Auction Date thereafter shall be used in lieu of the Kenny Index for each Auction Date.

"LIBOR" shall mean (A) for any Auction Period of fewer than forty-nine (49) days, the offered rates for deposits in U.S. dollars for a one-month period which appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on the date of determination, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the "calculation date") and (B) for any Auction Period of (i) at least forty-nine (49) but fewer than seventy (70) days, such rates for deposits in U.S. dollars for a two-month period, (ii) at least seventy (70) but fewer than eighty-five (85) days, the arithmetic average of such rates for deposits in U.S. dollars for two- and three-month periods, and (iii) at least eighty-five (85) but fewer than ninety-one (91) days, such rate for deposit in U.S. dollars for a three-month period; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, "LIBOR" means the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Market Agent, for deposits in U.S. dollars for the respective periods specified above to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two such quotations are provided, in which case, the arithmetic average of the rates quoted at approximately 11:00 a.m., New York City time, on the date next preceding such calculation date by three major banks in the City of New York selected by the Market Agent for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time.

"LIBOR Determination Date" shall mean the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

"Market Agent" shall mean the market agent or market agents appointed pursuant to the Resolution, and its or their successors or assigns.

"Market Agent Agreement" shall mean the Market Agent Agreement dated as of May 1, 1997, between the Corporation and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"Master Purchaser's Letter" means a letter in the form of Appendix G to this Offering Memorandum, addressed to, among others, the Corporation, the Auction Agent, a Broker-Dealer and a Participant.

"Maximum Auction Rate" shall mean (i) the Ninety-One Day United States Treasury Bill Rate plus 1.20% (if all ratings assigned by the Rating Agencies to the applicable Series A ARCs are "Aa3" or "AA-" or better), (ii) the Ninety-One Day United States Treasury Bill Rate plus 1.50% (if any one of the ratings assigned by the Rating Agencies to the applicable Series A ARCs is at least "A" but less than "AA3" or "AA-"), or (iii) the Ninety-One Day United States Treasury Bill Rate plus 1.75% (if one of the ratings assigned by the Rating Agencies to the applicable Series A ARCs is less than "A"). For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agency Agreement.

"Maximum Interest Rate" with respect to the Series A ARCs, shall mean the lesser of (a) 17% per annum or such higher rate as may be permitted upon receipt of a Rating Affirmation or (b) the maximum rate of interest permitted under Kentucky law; and with respect to the Series B ARCs shall mean the lesser of (a) 12% per annum (or such higher rate, not in excess of 18% as may be provided by amendment to the Resolutions upon receipt by the Corporation of a Favorable Opinion) or (b) the maximum rate of interest permitted under Kentucky law.

"Maximum Rate" on any date of determination, with respect to the Series A ARCs, shall mean the interest rate per annum equal to the lesser of:

(a) the Maximum Auction Rate; and

(b) the Maximum Interest Rate;

and with respect to the Series B ARCs, shall mean the interest rate per annum equal to the lesser of:

(a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date and (ii) the Kenny Index on such date; and

(b) the Maximum Interest Rate;

rounded to the nearest one thousandth (.001) of 1%.

"Ninety-One Day United States Treasury Bill Rate" shall mean the Bond-Equivalent Yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Auction Date, as determined by the Market Agent on the Auction Date.

"One-Month LIBOR" shall mean the London interbank offered rate for deposits in U.S. dollars having a maturity of one month commencing on the related LIBOR Determination Date (the "One-Month Index Maturity") which appears on Telerate Page 3750 as of 11:00 a.m., London time, on such LIBOR Determination Date. If such rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. dollars, having the One-Month Index Maturity and in a principal amount of not less than U.S. \$1,000,000, are offered at approximately 11:00 a.m., London time, on such LIBOR Determination Date to prime banks in the London interbank market by four major banks in the London interbank market selected by the Auction Agent (the "Reference Banks"). The Auction Agent will request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Auction Agent, at approximately 11:00 a.m., New York City time, on such LIBOR Determination Date for loans in U.S. dollars to leading European banks having the One-Month Index Maturity and in a principal amount equal to an amount of not less than U.S. \$1,000,000; provided that if the banks selected as aforesaid are not quoting as mentioned in this

sentence, One-Month LIBOR in effect for the applicable Interest Period will be One-Month LIBOR in effect for the previous Interest Period.

"Participant" shall mean a member of or participant in, the Depository.

"Payment Default" shall mean failure to make payment of interest on, premium, if any, and principal of the ARCs when due, by the Corporation.

"Person" means and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

"Potential Holder" shall mean any Person, including any Existing Holder, (1) who shall have executed a Master Purchaser's Letter and (2) who may be interested in acquiring ARCs (or, in the case of an Existing Holder thereof, an additional principal amount of ARCs).

"Record Date" shall mean, with respect to Senior Series 1997-A Bonds or Subordinate Series 1997-B Bonds outstanding as ARCs, (a) if and for so long as interest is payable with respect thereto semiannually, one Business Day prior to each Interest Payment Date and (b) so long as Interest Payment Dates are specified to occur at the end of each Auction Period, as provided in the Resolutions, the Applicable Number of Business Days immediately preceding each Interest Payment Date.

"Redemption Date" when used with respect to any ARCs to be redeemed, shall mean the date fixed for such redemption.

"Registrar" shall mean the Trustee or any separate registrar appointed under the Resolutions with respect to the Senior Series 1997-A Bonds and Subordinate Series 1997-B Bonds.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section, without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year; the Statutory Corporate Tax Rate as of May 1, 1997, is 35%.

"Submission Deadline" shall mean 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent for time to time.

Introduction

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding: (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by DTC; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

Orders By Existing Holders and Potential Holders

(a)(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder of ARCs may submit to a Broker-Dealer information as to: (I) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder desires to

continue to hold without regard to the Auction Rate for the next succeeding Interest Period, (II) the principal amount of Outstanding ARCs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder, and/or (III) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of ARCs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder.

The communication to a Broker-Dealer of information referred to in clause (A)(I), (A)(II), (A)(III) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders". Each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders". An Order containing the information referred to in clause (A)(I) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders". An Order containing the information referred to in clause (A)(II) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids". An Order containing the information referred to in clause (A)(III) of this subsection (a)(i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders".

(ii)(A) Subject to the provisions of subsection (b) below, a Bid by an Existing Holder shall constitute an irrevocable offer to sell: (I) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (II) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (III) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell: (I) the principal amount of Outstanding ARCs specified in such Sell Order; or (II) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase: (I) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (II) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

Submission By Broker-Dealers to the Auction Agent

(b)(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

- (A) the name of the Bidder placing such Order,
- (B) the aggregate principal amount of ARCs that are the subject of such Order,
- (C) to the extent that such Bidder is an Existing Holder: (I) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Holder; (II) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (III) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding ARCs held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Holder, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Holder, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Holder.

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (II) subject to subclause (I) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess; (III) subject to subclauses (I) and (II) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (IV) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of ARCs not equal to \$50,000 or any integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of ARCs not equal to \$50,000 or any integral multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates in the Submitted Bids.

Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate

(c)(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (I) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate; exceeds or is equal to the sum of: (II) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate; and (III) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (I) and (III) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (I) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (I)(a) each such Submitted Bid from Existing Holders specifying such lowest rate and (b) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (II)(a) each such Submitted Bid from Potential Holders specifying such lowest rate and (b) all other Submitted Bids from Potential Holders specifying lower rates were accepted, the result would be that such Existing Holders described in subclause (I) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Holders described in subclause (II) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Auction Rate, Maximum Interest Rate, One-Month LIBOR, and the All Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

If the Auction Rate determined as set forth above exceeds the Maximum Rate, the Applicable ARCs Rate for such Interest Period shall be equal to the Maximum Rate, and the excess of the amount of interest on the Bonds that would have accrued at the rate equal to the Auction Rate over the amount of interest on such ARCs actually accrued at the Maximum Rate will accrue as the Carry-over Amount. The Carry-over Amount will bear interest at a

rate equal to One-Month LIBOR from the Interest Payment Date for the Interest Period for which the Carry-over Amount was calculated until paid, or until extinguished in accordance with the Resolution.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs

(d) Existing Holders shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of this subsection (d), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids,

(C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) above, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of ARCs that is not equal to \$50,000 or any integral multiple thereof the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of ARCs purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or any integral multiple thereof, even if such allocation results in one or more of such Potential Holders not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARCs.

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Appendix F

Settlement Procedures

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SETTLEMENT PROCEDURES

Capitalized terms used herein are defined herein or in other parts of this Official Statement.

(a) Not later than 3:00 P.M. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of ARCs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of ARCs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such other Buyer's Broker-Dealers acted; and
- (vi) if the principal amount of ARCs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the agent member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf of each of such Seller's Broker-Dealers acted;
- (vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
- (viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Holder delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of ARC, that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.

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Appendix G

Master Purchaser's Letter

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MASTER PURCHASER'S LETTER

Relating to Securities involving Rate Settings
through Auctions

To: The Company
The Auction Agent
A Broker-Dealer
A Participant
Other Persons

1. This letter is designed to apply to auctions for publicly or privately offered debt or equity securities (the "Securities") of any issuer (the "Company") which securities are described in any final prospectus or other offering materials relating to such Securities as the same may be amended or supplemented (collectively, with respect to the particular Securities concerned, the "Prospectus") and which involve periodic rate settings through auctions ("Auctions"). This letter shall be for the benefit of the Company and any trust company or auction agent (collectively, "trust company"), broker-dealer, agent member, securities depository or other interested person in connection with the Securities and related Auctions (it being understood that such persons may be required to execute specified agreements and nothing herein shall alter such requirements). The terminology used herein is intended to be general in its application and not to exclude any of the Securities in respect of which (in the Prospectus or otherwise) alternative terminology is used.

2. We may from time to time offer to purchase, purchase, offer to sell and/or sell Securities of the Company as described in the Prospectus relating thereto. We agree that this letter shall apply to all such purchases, sales and offers and to Securities owned by us. We understand that the interest rate on Securities may be based from time to time on the results of Auctions as set forth in the Prospectus.

3. We agree that any bid or sell order placed by us shall constitute an invocable offer by us to purchase or sell the Securities subject to such bid or sell order, or such lesser amount of the Securities as we shall be required to sell or purchase as a result of such Auction, at the applicable price, all as set forth in the Prospectus, and that if we fail to place a bid or sell order with respect to the Securities owned by us with a broker-dealer on any auction date, or a broker-dealer to which we communicate a bid or sell order fails to submit such bid or sell order to the trust company concerned, we shall be deemed to have placed a hold order with respect to such Securities as described in the Prospectus. We authorize any broker-dealer that submits a bid or sell order as our agent in Auctions to execute contracts for the sale of the Securities covered by such bid or sell order. We recognize that the payment by such broker-dealer for the Securities purchased on our behalf shall not relieve us of any liability to such broker-dealer for payment for such Securities.

4. We agree that, during the applicable period as described in the Prospectus, dispositions of Securities can be made only in the denominations set forth in the Prospectus and we will sell, transfer or otherwise dispose of any Securities held by us from time to time only pursuant to a bid or sell order placed in an Auction, to or through a broker-dealer or, when permitted in the Prospectus, to a person that has signed and delivered, or caused to be delivered on its behalf, to the applicable trust company a letter substantially in the form of this letter (or other applicable purchaser's letter), provided that in the case of all transfers, other than pursuant to Auctions, we or our broker-dealer or our agent member shall advise such trust company of such transfer. We understand that a restrictive legend will be placed on certificates representing the Securities and stop-transfer instructions will be issued to the transfer agent and/or registrar, all as set forth in the Prospectus. We agree to comply with any other transfer restrictions or other related procedures as described in the Prospectus.

5. We agree that, during the applicable period as described in the Prospectus, ownership of Securities shall be represented by a global certificate registered in the name of the applicable securities depository or its nominee, that we will not be entitled to receive any certificate representing the Securities and that our ownership of any Securities will be maintained in book-entry form by the securities depository for the account of our agent member which in turn will maintain records of our beneficial ownership. We authorize and instruct our agent member to disclose to the applicable trust company such information concerning our beneficial ownership of any Securities as such trust company shall request.

6. We acknowledge that partial deliveries of the Securities purchased in Auctions may be made to us and such deliveries shall constitute good delivery as set forth in the Prospectus.

7. This letter is not a commitment by us to purchase any Securities.

8. This letter supersedes any prior-dated version of this master purchaser's letter and supplements any prior or post-dated purchaser's letter specific to particular Securities; any recipient of this letter may rely upon it until such recipient has received a signed writing amending or revoking this letter.

9. The descriptions of Auction procedures set forth in each applicable Prospectus are incorporated by reference herein and, in case of any conflict between this letter and any such description, such description shall control.

10. Any photocopy or other reproduction of this letter shall be deemed of equal effect as a signed original.

11. Our agent member of the securities depository currently is: _____.

12. Our personnel authorized to place orders with broker-dealers for the purposes set forth in the Prospectus in Auctions currently is/are _____, telephone number(s) _____.

13. Our taxpayer identification number is _____.

Dated: _____

(Name of Purchaser)

Print Name: _____

Title: _____

Mailing Address of Purchaser:

